

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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INNOSERV TECHNOLOGIES INC

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SIC: 7600 Miscellaneous repair services

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED APRIL 30, 1998

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-13608

INNOSERV TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

<TABLE>		
<S>	CALIFORNIA	<C>
	(State or other jurisdiction of incorporation or organization)	95-3619990 (I.R.S. Employer Identification No.)
	320 WESTWAY, SUITE 530, ARLINGTON, TEXAS	76018
	(Address of principal executive offices)	(Zip Code)
</TABLE>		

Registrant's telephone number, including area code: (817) 468-3377

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

<TABLE>		
<CAPTION>		
	TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
	-----	-----
<S>	Common stock, \$.01 Par Value	<C> NASDAQ National Market
</TABLE>		

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding twelve months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of Registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. / /

The aggregate market value of voting stock held by non-affiliates of the
Registrant as of July 17, 1998 was \$5,855,640.

At July 17, 1998, the Registrant had outstanding 3,009,395 shares of its
common stock, \$.01 par value.

Part III incorporates information by reference from the proxy statement for the Annual Meeting of Shareholders to be held on October 13, 1998.

PART I

ITEM 1. BUSINESS.

GENERAL

InnoServ Technologies, Inc.-Registered Trademark- ("InnoServ") is a California corporation organized in 1981. InnoServ provides comprehensive asset management programs and services, multi-vendor maintenance and repair services and other specialized services to radiology, cardiology, biomedical and laboratory departments of hospitals and other healthcare providers. The foregoing business is reported as one segment. Except where the context otherwise requires, the term "InnoServ" and "Registrant" as used in this report refers to InnoServ Technologies, Inc. and its subsidiaries.

InnoServ operates its business primarily through its wholly-owned subsidiary, InnoServ Technologies Maintenance Services, Inc. ("InnoServ Maintenance"), and through its imaging operation.

On May 19, 1998, InnoServ entered into an Agreement and Plan of Merger with General Electric Company ("GE") whereby GE Medical Systems, a division of GE, will acquire all of the outstanding common stock of InnoServ (the "Merger") (see Note 15 to the Notes to Consolidated Financial Statements). The Merger, which is subject to approval by InnoServ's shareholders, government regulatory approval and other customary contingencies, is planned to close in late August 1998. Certain InnoServ shareholders, representing 53 percent of InnoServ shares (an amount sufficient to approve the Merger), have entered into agreements with GE to vote in favor of the Merger. On July 14, 1998, GE and InnoServ received written notice that the Federal Trade Commission has granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

INNOSERV TECHNOLOGIES MAINTENANCE SERVICES, INC.

InnoServ Maintenance provides maintenance, consulting and technical services for customer operated magnetic resonance imaging ("MRI") and computed tomography ("CT") scanners and a wide array of diagnostic imaging, biomedical and laboratory equipment on a nationwide basis. Comprehensive maintenance service agreements covering virtually all the equipment operated by a hospital's radiology, biomedical and laboratory departments ("Asset Management") usually have terms of three years or more. Maintenance agreements for individual MRI and CT scanners and x-ray tube replacement agreements typically have terms of one to three years, with limited termination provisions, and pricing is determined on either a fixed or volume related basis. Maintenance services are performed at a customer's site by InnoServ Maintenance's field service engineers and equipment specialists. InnoServ Maintenance's personnel, through the use of proprietary software information systems, also provide customers of the Asset Management services with an array of analytical reports and consultative services to help manage the customer's imaging, biomedical and laboratory capital equipment. In addition to performing regular preventive maintenance services, InnoServ Maintenance's engineers are on call 24 hours a day, seven days a week, to provide emergency maintenance of medical equipment. InnoServ Maintenance also sells x-ray tubes and spare parts for many different makes and models of MRI and CT scanners. InnoServ Maintenance also sells used and refurbished diagnostic imaging equipment as a service to its customers.

In support of its field service operations, InnoServ Maintenance maintains a supply of spare parts in strategic locations across the nation. Analysis and repair of defective parts are performed at InnoServ's Arlington, Texas, facility. In addition to having the capability to repair electronic circuit boards and systems, InnoServ Maintenance reloads x-ray tubes and rebuilds high voltage components such as transformers.

IMAGING OPERATION

InnoServ owns 6 mobile CT scanners and 6 cardiac catheterization laboratories (the "Imaging Operation") which are offered to customers under

lease agreements. Customers typically enter into these

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leases while their in-house equipment is being installed, serviced or upgraded or to supplement in-house equipment during periods of heavy patient volume. InnoServ may also provide technologists and other additional support services pursuant to the lease. Typically, customers execute an agreement for a specific period ranging from one month to periods in excess of one year and are billed monthly on a fixed rate basis regardless of the number of procedures performed.

CUSTOMERS AND MARKETING

InnoServ markets its services to healthcare providers through a direct sales force consisting of sales representatives and supervisory personnel. InnoServ's strategy emphasizes its multi-vendor, multi-modality Asset Management programs, the skill and experience of its service engineers, the quality of its equipment, the reliability and cost effectiveness of its service, and its ability to tailor service programs to specific customer needs.

Hospitals and other healthcare providers which operate MRI and CT scanners and other diagnostic, biomedical and laboratory equipment require regular preventive maintenance programs and emergency repair services for their equipment. Since the quality and reliability of patient care depends in part upon the reliability of the equipment used, hospitals arrange for regular maintenance of the equipment and contract for maintenance and repair services with the equipment manufacturers or independent maintenance companies such as InnoServ.

When larger hospitals desire to replace, upgrade or augment their existing CT or cardiac catheterization equipment, they may require interim rental equipment such as that provided by InnoServ. By using such equipment for an interim period, hospitals may continue to offer their regular services during a major renovation.

During fiscal 1998, InnoServ provided its Asset Management, maintenance, distribution and diagnostic services in 41 states to customers including hospitals, health maintenance organizations, out-patient clinics and private physician offices. Revenues from an Asset Management service agreement with IHC Health Services, Inc. accounted for 13 percent of InnoServ's consolidated revenues for fiscal 1998.

COMPETITION

The healthcare industry in general and the market for medical equipment maintenance, distribution and diagnostic imaging services in particular is highly competitive.

With respect to its medical equipment maintenance services, InnoServ competes with both medical equipment manufacturers, most of which have substantially greater financial and marketing resources than InnoServ, and other third party maintenance service companies. Certain large hospital systems also provide in-house maintenance service on their own equipment.

With respect to its distribution services, InnoServ competes with other distributors, manufacturers and equipment resellers such as brokers, leasing companies, and individual healthcare providers, many of whom have financial and marketing resources substantially greater than those of InnoServ.

INTELLECTUAL PROPERTY

Most of InnoServ's diagnostic software products were developed by InnoServ or its acquired businesses. Software products including certain diagnostic software programs are licensed to InnoServ by various vendors and equipment manufacturers, some of whom are competitors. If selected licensed software products were no longer available, a material hardship on InnoServ could result.

Software products developed or used by InnoServ may from time to time raise questions of infringement of patents or copyrights owned by others and not licensed to InnoServ. No claims of such infringement have been raised; however, if such claims are raised and it is determined that licenses under

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patents or copyrights owned by others are essential, but not available, a material hardship on InnoServ might result.

SOURCES AND AVAILABILITY OF REPAIR PARTS

Most of the mechanical, electrical and electronic parts and components used in the performance of repair service are purchased from medical equipment manufacturers and after-market part suppliers. InnoServ believes that materials, components and parts of the type and in the quantities necessary for its continued service operations are readily available, and in many cases alternate sources currently exist. InnoServ procures certain x-ray tubes and other proprietary components from certain sole source suppliers. In the event any sole source item becomes unavailable from the present supplier or the supplier's time to deliver such items is abruptly extended beyond normal, InnoServ could experience difficulty, delay and expense in obtaining delivery from other sources and InnoServ's ability to maintain and repair customers' equipment could be impeded.

INSURANCE

InnoServ maintains a comprehensive insurance program which covers the replacement value of its equipment and vehicles, subject to normal deductibles, when appropriate. Additionally, InnoServ maintains professional and general liability, and employee health insurance coverage, subject to normal deductibles. InnoServ believes its present insurance coverage is adequate.

EMPLOYEES

At June 30, 1998, InnoServ had 207 employees. None of InnoServ's employees are represented by a labor organization and InnoServ is not aware of any activity seeking such organization. InnoServ considers its relationship with its employees generally to be satisfactory.

ITEM 2. PROPERTIES.

InnoServ leases approximately 76,000 square feet of office, maintenance and storage facilities in nine locations at an approximate annual cost of \$690,000. Individual lease terms extend up to 41 months with various renewal options.

While InnoServ believes that its facilities are adequate for its current and near-term needs, to the extent InnoServ expands its activities either geographically or with respect to the number of hospitals, clinics or group practices to which it provides its services, InnoServ may be required to obtain additional office, maintenance or storage facilities.

ITEM 3. LEGAL PROCEEDINGS.

Pursuant to a stock purchase agreement dated November 13, 1997 (the "MEDIQ Agreement"), by and among InnoServ and MEDIQ Incorporated and MEDIQ Investment Services, Inc. (collectively "MEDIQ"), InnoServ repurchased 2,026,438 shares of InnoServ's common stock (the "MEDIQ Shares") from MEDIQ in exchange for an agreement that InnoServ would not enter into or consummate a change of control (as defined in the MEDIQ Agreement) unless the other party or parties thereto agree, as a condition precedent to such transaction, to pay to MEDIQ the amount that would have been received by MEDIQ in connection with the change of control transaction if all of the MEDIQ Shares were outstanding and held by MEDIQ at the effective time of such change of control transaction. The MEDIQ Agreement further provides that, after April 1, 1998 and through September 30, 1998, InnoServ shall not enter into or consummate a change of control unless the other party or parties thereto agree, as a condition precedent to such transaction, to pay MEDIQ 50% of the amount that would have been received by MEDIQ in connection with the change of control transaction if all of the MEDIQ Shares were outstanding and held by MEDIQ at the effective time of such change of control transaction.

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MEDIQ and InnoServ are currently in dispute as to the amount that would be owed to MEDIQ under the terms of the MEDIQ Agreement upon consummation of the Merger. If InnoServ and GE had entered into or consummated a change of control on or prior to April 1, 1998, MEDIQ would have been entitled to \$6,437,994, based upon the Merger consideration, upon consummation of the Merger. Pursuant to a letter agreement dated May 19, 1998, among InnoServ, MEDIQ and GE (the "Letter Agreement"), MEDIQ has acknowledged that it believes that, based on the accuracy of the representations described below, it will be owed \$4,052,876 upon consummation of the Merger, while InnoServ has acknowledged that it believes that MEDIQ will be owed \$3,218,997, which amount is 50% of \$6,437,994. The Merger Agreement provides for the payment on the effective date of the Merger by

GE (i) to MEDIQ of an amount equal to \$3,218,997 (the "MEDIQ Payment") and (ii) to an escrow agent of an amount equal to \$833,879, to be held pursuant to an escrow agreement by and between MEDIQ and InnoServ.

Under the terms of the Letter Agreement, MEDIQ also released InnoServ from any further obligations under the MEDIQ Agreement, contingent upon the receipt of the MEDIQ Payment and subject to the representations of InnoServ and GE that such parties did not affirmatively delay any such change of control transaction and that a description (provided to MEDIQ) of the parties' discussions with respect to the Merger was materially correct and not misleading. In connection with the arbitration of the dispute over whether MEDIQ is owed \$4,052,876 or \$3,218,997, MEDIQ has advised InnoServ that it has concerns as to the accuracy of such representations and that MEDIQ will require discovery with respect to that issue. While InnoServ believes that the representations are accurate, MEDIQ may nevertheless claim that they are not accurate and demand that the full amount of \$6,437,994 be paid to MEDIQ upon consummation of the Merger. Although InnoServ believes that any such claim would be without merit, there is no assurance, if such a claim is asserted, that InnoServ will prevail on the issue in the arbitration proceeding or otherwise; however, the ultimate resolution of this issue will have no effect on the amount of consideration to be received by InnoServ shareholders.

InnoServ is involved in various legal actions, claims, and proceedings of a nature considered normal to the conduct of its business. InnoServ believes, after reviewing such matters and consulting with counsel, that any liability which may ultimately be incurred with respect to these matters is not expected to have a material effect on either InnoServ's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

InnoServ's common stock is traded in the NASDAQ National Market under the symbol ISER. The ranges of high and low transaction prices for the common stock as reported by The National Stock Market, Inc. for fiscal 1998 and 1997 are set forth in the following table. Such quotations are prices between dealers without retail markups, markdowns or commissions and do not represent actual transactions.

<TABLE>
<CAPTION>

	HIGH ----- <C>	LOW ----- <C>
1998		
4th Quarter.....	\$ 3 5/8	\$ 1 15/16
3rd Quarter.....	\$ 3	\$ 1 11/16
2nd Quarter.....	\$ 2 1/4	\$ 1 1/2
1st Quarter.....	\$ 2 1/4	\$ 1 11/16
1997		
4th Quarter.....	\$ 3 1/8	\$ 1 13/16
3rd Quarter.....	\$ 3 1/8	\$ 2 1/8
2nd Quarter.....	\$ 5	\$ 2 7/8
1st Quarter.....	\$ 5 5/8	\$ 3 5/8

</TABLE>

InnoServ estimates that it had approximately 650 beneficial shareholders as of July 17, 1998.

In April 1995, InnoServ's Board of Directors discontinued the payment of dividends for an indefinite period. InnoServ's current loan agreement prohibits the payment of cash dividends.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth certain selected financial data for each of

the five years in the period ended April 30, 1998. The acquired operations of MEDIQ Equipment and Maintenance Services, Inc. have been included effective August 3, 1994. The operations of Advanced Imaging Technologies, Inc. were disposed of effective March 17, 1997 (see Note 4 to the Notes to Consolidated Financial Statements). The selected financial data presented below should be read in conjunction with the consolidated financial statements of InnoServ and the notes thereto appearing in Item 8 of Part II of this report and the information set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations.

<TABLE>
<CAPTION>

	YEAR ENDED				
	APRIL 30, 1998	APRIL 30, 1997	APRIL 30, 1996	APRIL 30, 1995	APRIL 29, 1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>
Operating Data:					
Revenues.....	\$ 36,889	\$ 42,387	\$ 45,727	\$ 46,366	\$ 40,464
Net income (loss).....	(2,664)	(1,573)	(7,189)	(3,630)	1,507
Net income (loss) per share (a):					
Basic.....	(0.65)	(0.31)	(1.43)	(0.81)	0.51
Diluted.....	(0.65)	(0.31)	(1.43)	(0.81)	0.49
Cash Dividends Per Share.....	\$ --	\$ --	\$ --	\$ 0.23	\$ 0.16
Weighted Average Shares (a):					
Basic.....	4,098	5,036	5,036	4,511	2,944
Diluted.....	4,098	5,036	5,036	4,511	3,049
Balance Sheet Data:					
Total assets.....	\$ 18,713	\$ 19,102	\$ 23,840	\$ 30,506	\$ 21,430
Working capital.....	(594)	978	1,023	4,077	6,784
Total long-term debt.....	--	479	910	141	--
Total shareholders' equity.....	\$ 5,729	\$ 8,393	\$ 9,966	\$ 17,155	\$ 15,400

</TABLE>

(a) In 1997 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods above have been presented and, where necessary, restated to conform to the SFAS No. 128 requirements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

FISCAL 1998 COMPARED TO FISCAL 1997

Consolidated revenues for fiscal 1998 were \$36,889,000, a decrease of \$5,498,000 from fiscal 1997 consolidated revenues of \$42,387,000. The decline in revenues is primarily attributable to a decrease of \$5,221,000 resulting from the disposition of substantially all of the revenue producing assets of Advanced Imaging Technologies, Inc. ("AIT") on March 17, 1997 (see Note 4 to the Notes to Consolidated Financial Statements). Revenues from computed tomography ("CT") and magnetic resonance imaging ("MRI") maintenance service agreements decreased approximately \$2,400,000 and \$210,000, respectively, primarily as a result of the continued decline in the number and average contract amount of maintenance service

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agreements in effect as older equipment is being upgraded or removed from service by customers. Revenues from InnoServ's diagnostic mobile imaging operations declined approximately \$180,000 due to lower customer demand for these units. Offsetting these declines, revenues from asset management and multi-vendor services increased approximately \$2,050,000 as InnoServ continues to focus on the growing market for these types of services. In addition, after taking into effect the disposal of AIT, sale of spare parts, x-ray tubes and equipment increased by approximately \$560,000 as InnoServ experienced a greater

demand for its spare parts and x-ray tubes from other service providers and distributors.

Cost of operations, excluding the costs of AIT, increased \$1,430,000 from fiscal 1997 to fiscal 1998 as the costs in fiscal 1997 were 84 percent of revenues, increasing to 88 percent of revenues in fiscal 1998. This increase as a percentage of revenues was due primarily to a higher failure rate of equipment under maintenance service agreements than previously experienced, an increasing utilization of other service providers to supplement InnoServ's own staff of field engineers to service equipment under maintenance service agreements, a greater need to source repair parts from third parties rather than utilizing InnoServ's existing inventory of spare parts, and lower gross margins generally on asset management contracts awarded to InnoServ during the last year due to competitive pricing in the marketplace.

Depreciation and amortization expenses decreased \$291,000, or 15 percent, from the prior year primarily as a result of the completed depreciation of certain capital equipment. Selling and administrative expenses decreased \$996,000, or 16 percent, primarily as a result of reductions in InnoServ's administrative functions resulting from the disposal of AIT, representing approximately \$680,000 of the total decline, and cost containment activities.

The loss before income taxes increased by \$1,026,000 to \$2,646,000 in fiscal 1998 from \$1,620,000 in fiscal 1997 primarily as a result of the factors identified in the discussion of cost of operations above.

In fiscal 1998 InnoServ recorded a tax provision of \$18,000 for income taxes due to certain states in which InnoServ conducts business. InnoServ did not recognize a federal tax benefit from the operating loss in fiscal 1998. Under SFAS No. 109, "Accounting for Income Taxes", net operating losses enter into the calculation of deferred tax assets and liabilities. At April 30, 1998, InnoServ had an estimated net deferred tax asset before valuation allowance of \$6,416,000, primarily as a result of net operating losses and tax credit carryforwards. Due to the cumulative losses incurred in recent years the deferred tax assets do not currently meet the criteria for recognition under SFAS No. 109 and, accordingly, InnoServ has recorded a valuation allowance for the full amount of the net deferred tax asset.

On May 19, 1998, InnoServ entered into an Agreement and Plan of Merger ("Merger Agreement") with General Electric Company ("GE") whereby GE Medical Systems, a division of GE, will acquire all of the outstanding common stock of InnoServ (the "Merger") (see Note 15 to the Notes to Consolidated Financial Statements). The Merger, which is subject to approval by InnoServ's shareholders, government regulatory approval and other customary contingencies, is planned to close in late August 1998. Certain InnoServ shareholders, representing 53 percent of InnoServ's shares (an amount sufficient to approve the Merger), have entered into agreements with GE to vote in favor of the Merger. On July 14, 1998, GE and InnoServ received written notice that the Federal Trade Commission has granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Should the Merger not close as expected, it could have a material adverse effect on InnoServ's ongoing business due to anticipated terminations of employees and difficulty in attracting new employees and customers.

FISCAL 1997 COMPARED TO FISCAL 1996

Consolidated revenues for fiscal 1997 were \$42,387,000, a decrease of \$3,340,000 from fiscal 1996 consolidated revenues of \$45,727,000. The decrease occurred primarily as a result of the continued decline in the number and average contract amount of CT maintenance service agreements in effect as a result of older equipment being upgraded or removed from service by customers and InnoServ's decision to not renew certain CT maintenance contracts in unprofitable locations. Revenues for fiscal 1997 related to CT

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maintenance contracts declined by approximately \$6,200,000 as compared to fiscal 1996 revenues. In addition, sales of spare parts, supplies, x-ray tubes and equipment declined by \$815,000 primarily due to the disposition of substantially all of the revenue producing assets of AIT on March 17, 1997 (see Note 4 to the Notes to Consolidated Financial Statements). AIT's business was no longer consistent with the strategic focus of InnoServ. These declines were partially offset by revenue increases in InnoServ's other product lines, principally asset management and multi-vendor services which grew by \$3,680,000 as compared to 1996 revenues as InnoServ continued to focus on the growing market for these types of services. In addition, the decline was partially offset by a reduction

of approximately \$200,000 in the reserve for sales allowances during the fourth quarter of fiscal 1997. This reduction was a result of management's ongoing analysis of service billings.

Cost of operations for fiscal 1997 decreased by \$3,958,000 as those costs were approximately 85 percent of fiscal 1997 revenues as compared to approximately 87 percent of revenues in fiscal 1996. These decreases were the result of the cost reduction actions, including employment terminations, taken in fiscal 1997 and 1996 by management as well as the increase in asset management services which generally had higher operating margins than the operating margins of most of InnoServ's other product lines, including CT maintenance contracts, which have margins that continue to decline. In addition, during the fourth quarter of fiscal 1997, InnoServ recorded a reduction of approximately \$300,000 in certain accruals as determined through management's ongoing evaluation of estimated liabilities.

Depreciation and amortization expenses for fiscal 1997 were \$98,000 less than in fiscal 1996 which reflects the reduction in expenditures for capital equipment, principally test equipment used in the maintenance service product lines as InnoServ concentrated its activities on the asset management services which require less capital than the other InnoServ product lines.

Selling and administrative expenses decreased in fiscal 1997 by \$2,134,000 to \$6,223,000 which is the result of management's efforts to reduce expenses in fiscal 1997 which included reductions in InnoServ's sales force and administrative personnel. Additionally, the decrease is due to the elimination of certain nonrecurring costs incurred in fiscal 1996 of \$313,000 in restructuring costs recorded in the third quarter of fiscal 1996 as well as other training and duplicate salary expenses for the relocation of InnoServ's headquarters.

Loss before income taxes declined by \$3,090,000 to \$1,620,000 in fiscal 1997 from \$4,710,000 in fiscal 1996, partially as a result of improved operating margins resulting from the increase in revenue from asset management services which had higher operating margins than the other product lines. In addition, the loss before income taxes in fiscal 1996 reflected special charges of \$2,267,000, restructuring costs to effect the relocation of InnoServ's headquarters and spare parts repair operations, and unfavorable operating margins associated with the CT maintenance business. Because InnoServ employs field service engineers over a wide geographic area, the level of revenues were not sufficient in certain locations to cover the direct costs of providing maintenance and repair services and the infrastructure costs to support these activities.

InnoServ recorded a \$47,000 tax benefit in fiscal 1997 representing an estimated tax refund for state income taxes paid in prior years. InnoServ did not recognize a federal tax benefit from the operating loss for fiscal 1997. At April 30, 1997, InnoServ had an estimated net deferred tax asset before valuation allowance of \$5,513,000, primarily as a result of net operating losses and tax credit carryforwards. In accordance with SFAS No. 109, InnoServ recorded a valuation allowance for the full amount of the net deferred tax asset. The ultimate realization of the deferred tax asset depends on the ability of InnoServ to generate sufficient taxable income in the future. Due to the cumulative losses incurred in recent years, the deferred tax assets did not meet the criteria for recognition under SFAS No. 109.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at April 30, 1998, totaled \$3,088,000. The principal source of cash for fiscal 1998 was operations which generated \$2,017,000 due primarily to an increase in accounts payable of \$2,316,000 due to the timing of payments, the non-cash effect of depreciation and amortization of \$1,707,000, a reduction in inventory of \$347,000 due to the amortization of spare parts inventory partially offset by additional purchases of spare parts and x-ray tubes required to service newer technology CT and MRI scanners, and an increase in deferred revenues of \$529,000 as payments received for services to be provided exceeded services provided during the period. Offsetting these positive cash flows, receivables increased by \$128,000 as a result of the timing of cash receipts from customers and prepaid expenses increased by \$119,000 for costs incurred in conjunction with the Merger Agreement with GE, which costs have been deferred until consummation of the Merger. The funds generated from operations financed purchases of new capital equipment of \$106,000 and debt payments of \$629,000.

Under the terms of the Merger Agreement, GE purchased 700,000 shares of a newly created Series B Preferred Stock of InnoServ (the "Preferred Shares") for \$2,800,000, which payment was received by InnoServ on June 5, 1998. The Preferred Shares accrue dividends of \$0.32 per share per annum, beginning six months from the issuance of such shares, whether or not earned or declared, and are redeemable by InnoServ at anytime at a price equal to \$4.00 per share plus any accrued but unpaid dividends. Each Preferred Share is also convertible into common stock of InnoServ, at the option of the holders, at anytime after the earlier of (i) the consummation of a reorganization of InnoServ with a third party or (ii) the later of (A) September 30, 1998 or (B) the termination of the Merger Agreement.

InnoServ's allowance for doubtful accounts at April 30, 1998 was \$869,000, or 19 percent of gross accounts receivable. InnoServ's customers include hospitals, physician practices, outpatient clinics, and entrepreneurial operations. Some of these customers are thinly capitalized, operate on small margins and experience cash flow difficulties due to the lengthy time required to receive reimbursement from Medicare and insurance companies. Factors impacting InnoServ's allowance for doubtful accounts include the timing of account write-offs and the changes occurring in the healthcare industry, primarily the move to managed care, which has weakened healthcare providers' ability to honor their debts and have forced some of the providers out of business.

On April 14, 1997 InnoServ entered into a new loan agreement with a bank pursuant to which amounts outstanding under InnoServ's term loan and revolving line of credit with the bank were converted into a new term loan of \$1,198,000. Borrowings under the new term loan bear interest at the rate of prime (8.5% at April 30, 1998) plus 1% per annum. Monthly installments of \$54,000 plus interest are required through January 8, 1999. Obligations under the loan agreement are secured by a security interest in InnoServ's accounts receivable, inventory and capital equipment. The loan agreement contains financial covenants including maintenance of certain financial ratios, net worth requirements, and restrictions on future borrowings and payment of dividends. As a result of the net loss for the period, InnoServ failed to meet the net worth covenant, the current ratio and the cash flow ratio required under the loan agreement as of April 30, 1998. InnoServ's bank waived these events of noncompliance effective April 30, 1998 and through September 30, 1998 for the net worth covenant and the current ratio and through January 8, 1999 for the cash flow ratio. As a result of the \$2,800,000 in proceeds received on June 5, 1998 from the issuance of the Preferred Shares, InnoServ expects to be in compliance with the net worth covenant and current ratio at September 30, 1998.

InnoServ believes it has sufficient cash resources to meet its operating needs and does not anticipate making any significant capital purchases for the next twelve months.

YEAR 2000 ISSUES

InnoServ maintains or services certain customer owned medical equipment containing microprocessors and software programs with date functionality which could malfunction in the year 2000 ("Year 2000

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Issue"). InnoServ has, among other actions, sent written communications to all of its customers to ensure they are aware of the Year 2000 Issue as it pertains to their medical equipment and they have initiated actions to bring their equipment into compliance with the Year 2000 Issue, if applicable. Solutions for bringing equipment into compliance range from a simple reprogramming of the software, to the replacement of circuit boards or components, to retiring the equipment because it cannot be brought into compliance cost effectively. These solutions, particularly if a customer chooses to retire equipment, could have an adverse effect on InnoServ's revenue stream.

InnoServ has conducted an assessment of its own computer systems and other date sensitive electronic systems and determined they are substantially compliant with the Year 2000 Issue. No interruption of InnoServ's business is expected to occur and the costs to bring systems in full compliance is not expected to be material.

RISK FACTORS

The statements in this Management's Discussion and Analysis and elsewhere in this report that are not based on historical fact are forward looking statements, which involve numerous risks and uncertainties. InnoServ's future

results of operations and financial condition may differ materially from these expectations due to many factors, including the closing of the Merger with GE and, in the absence of such closing, InnoServ's ability to implement its operating plans to reduce costs while providing an increasing array of services to its customers, to retain existing employees and customers and to attract new employees and customers, competitive and regulatory conditions in the healthcare industry generally, and other factors, many of which are beyond the control of InnoServ.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following financial statements and financial statement schedule of InnoServ and the Report of Independent Auditors are included herein on the pages indicated:

<TABLE> <CAPTION>	PAGE ----
<S>	<C>
Consolidated Financial Statements:	
Report of Independent Auditors.....	13
Consolidated Balance Sheets at April 30, 1998 and 1997.....	14
Consolidated Statements of Operations for the years ended April 30, 1998, 1997 and 1996.....	15
Consolidated Statements of Shareholders' Equity for the years ended April 30, 1998, 1997 and 1996.....	16
Consolidated Statements of Cash Flows for the years ended April 30, 1998, 1997 and 1996.....	17
Notes to Consolidated Financial Statements.....	18
Financial Statement Schedule:	
Schedule II--Valuation and Qualifying Accounts.....	30

Schedules not filed herewith are omitted because of the absence of conditions under which they are required or because the information called for is shown in the Consolidated Financial Statements or Notes thereto.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
InnoServ Technologies, Inc.

We have audited the accompanying consolidated balance sheets of InnoServ Technologies, Inc. as of April 30, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended April 30, 1998. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above

present fairly, in all material respects, the consolidated financial position of InnoServ Technologies, Inc. at April 30, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 30, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Fort Worth, Texas
June 17, 1998

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INNOSERV TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

<TABLE>
<CAPTION>

	APRIL 30, 1998	APRIL 30, 1997
	-----	-----
<S>	<C>	<C>
	ASSETS	
Current assets		
Cash and cash equivalents.....	\$ 3,088	\$ 1,806
Receivables, net.....	3,821	3,693
Inventory.....	4,909	5,256
Prepaid expenses.....	572	453
	-----	-----
Total current assets.....	12,390	11,208
Capital equipment, net.....	3,042	4,491
Goodwill, net.....	3,240	3,392
Other assets.....	41	11
	-----	-----
	\$ 18,713	\$ 19,102
	-----	-----

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Current portion of long-term debt.....	\$ 479	\$ 629
Accounts payable.....	5,974	3,658
Accrued liabilities.....	2,283	2,224
Deferred revenues.....	4,248	3,719
	-----	-----
Total current liabilities.....	12,984	10,230
Long-term debt, less current portion.....	--	479
Commitments and contingencies.....		
Shareholders' equity		
Preferred stock, \$.01 par value: 5,000,000 shares authorized; no shares issued.....	--	--
Common stock, \$.01 par value: 10,000,000 shares authorized; 3,009,395 issued at April 30, 1998 and 5,035,833 issued at April 30, 1997.....	30	51
Paid-in capital.....	17,324	17,303
Accumulated deficit.....	(11,625)	(8,961)
	-----	-----
Total shareholders' equity.....	5,729	8,393
	-----	-----
	\$ 18,713	\$ 19,102
	-----	-----

</TABLE>

The accompanying notes are an integral part of these financial statements.

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INNOSERV TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1998	1997	1996
	<C>	<C>	<C>
Revenues:			
Service.....	\$ 31,452	\$ 33,819	\$ 36,344
Sale of parts and equipment.....	5,437	8,568	9,383
Total revenues.....	36,889	42,387	45,727
Costs:			
Cost of service.....	30,198	30,303	32,873
Cost of parts and equipment.....	2,401	5,551	6,939
Total cost of operations.....	32,599	35,854	39,812
Depreciation and amortization.....	1,707	1,998	2,096
Selling and administrative.....	5,227	6,223	8,357
Loss from operations.....	(2,644)	(1,688)	(4,538)
Interest expense, net.....	(2)	(112)	(172)
Other income.....	--	180	--
Loss before income taxes.....	(2,646)	(1,620)	(4,710)
Provision (benefit) for income taxes.....	18	(47)	2,479
Net loss.....	\$ (2,664)	\$ (1,573)	\$ (7,189)
Net loss per share--basic and diluted.....	\$ (0.65)	\$ (0.31)	\$ (1.43)
Weighted average shares--basic and diluted.....	4,098	5,036	5,036

</TABLE>

The accompanying notes are an integral part of these financial statements.

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INNOSERV TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

FOR THE YEARS ENDED APRIL 30, 1998, 1997 AND 1996

	COMMON STOCK (\$.01 PAR VALUE)		PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT			
<S>	<C>	<C>	<C>	<C>	<C>
Balance, April 30, 1995.....	5,035,833	\$ 51	\$17,303	\$ (199)	\$17,155
Net loss.....	--	--	--	(7,189)	(7,189)
Balance, April 30, 1996.....	5,035,833	51	17,303	(7,388)	9,966
Net loss.....	--	--	--	(1,573)	(1,573)
Balance, April 30, 1997.....	5,035,833	51	17,303	(8,961)	8,393
Repurchase of shares.....	(2,026,438)	(21)	21	--	--
Net loss.....	--	--	--	(2,664)	(2,664)
Balance, April 30, 1998.....	3,009,395	\$ 30	\$17,324	\$ (11,625)	\$ 5,729

</TABLE>

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

FOR THE YEARS ENDED APRIL 30, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from:			
Operations:			
Net loss.....	\$ (2,664)	\$ (1,573)	\$ (7,189)
Adjustments to reconcile net loss to net cash flows from operations:			
Depreciation and amortization.....	1,707	1,998	2,096
Gain on disposal of equipment.....	--	--	(98)
Provision for deferred income taxes.....	--	--	3,347
Changes in assets and liabilities:			
Receivables.....	(128)	977	(701)
Inventory.....	347	1,840	1,741
Prepaid expenses.....	(119)	(105)	182
Accounts payable.....	2,316	(942)	1,398
Accrued liabilities.....	59	(849)	(1,138)
Deferred revenues.....	529	(529)	1,894
Other assets.....	(30)	112	459
	-----	-----	-----
Net cash provided by operations.....	2,017	929	1,991
Investing activities:			
Sale of capital equipment.....	--	--	180
Sale of AIT assets.....	--	788	--
Purchase of capital equipment.....	(106)	(188)	(1,427)
	-----	-----	-----
Net cash provided by (used for) investing activities.....	(106)	600	(1,247)
Financing activities:			
Payments on long-term debt.....	(594)	(500)	(125)
Payments under capital lease obligations.....	(35)	(106)	(356)
Decrease in borrowings from line of credit.....	--	(256)	(2,649)
Proceeds from the issuance of long-term debt.....	--	198	1,500
	-----	-----	-----
Net cash used for financing activities.....	(629)	(664)	(1,630)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	1,282	865	(886)
Cash and cash equivalents at beginning of period.....	1,806	941	1,827
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 3,088	\$ 1,806	\$ 941
	-----	-----	-----

</TABLE>

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION OF BUSINESS

InnoServ provides comprehensive asset management systems and services and multi-vendor maintenance and repair services for healthcare facilities, offers mobile computed tomography and cardiac catheterization units for lease and distributes radiology parts and equipment on a nationwide basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of InnoServ and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Certain reclassifications have been made in the prior years' consolidated financial statements to conform to the fiscal 1998 presentation.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS

Cash equivalents include highly liquid investments with an original maturity of three months or less.

RECEIVABLES

Receivables are stated net of an allowance for doubtful accounts of \$869,000 and \$910,000 at April 30, 1998 and 1997, respectively.

CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising InnoServ's customer base. InnoServ reviews a potential customer's credit history before extending credit. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information.

INVENTORY

Equipment held for resale, x-ray tubes, and other radiological supplies are carried at the lower of cost or market value. Spare parts relating to maintenance services are carried at average cost and expensed when used or sold. Spare parts inventory is amortized over the estimated useful life of the parts which has been determined to be seven years. Spare parts inventory is stated at cost net of such accumulated amortization and allowances of \$5,819,000 and \$5,040,000 at April 30, 1998 and 1997, respectively. The estimated useful life and carrying value of spare parts inventory are evaluated based upon historical usage

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INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and the type and duration of the maintenance contracts in effect. Inventory at April 30, 1998 and 1997 consisted of the following (in thousands):

<TABLE>
<CAPTION>

	APRIL 30, 1998	APRIL 30, 1997
<S>	<C>	<C>
Spare parts and supplies, net.....	\$ 4,031	\$ 4,484
Inventory held for resale.....	878	772
	-----	-----
	\$ 4,909	\$ 5,256
	-----	-----

</TABLE>

CAPITAL EQUIPMENT

Capital equipment is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over estimated useful lives ranging from three to ten years. Maintenance and repairs are charged against income and betterments are capitalized. Capital equipment at April 30, 1998 and 1997 consisted of the following (in thousands):

<TABLE>

<CAPTION>

	APRIL 30, 1998	APRIL 30, 1997
<S>	<C>	<C>
Cost.....	\$ 27,065	\$ 27,907
Less accumulated depreciation.....	(24,023)	(23,416)
	\$ 3,042	\$ 4,491

</TABLE>

Depreciation expense for the years ended April 30, 1998, 1997 and 1996 was \$1,555,000, \$1,846,000, and \$1,942,000, respectively.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the anticipated future tax effects of differences between their carrying amounts for financial reporting purposes and the amounts used for income tax purposes (see Note 10).

GOODWILL

Cost of approximately \$4,445,000 in excess of the net assets acquired in purchase transactions is being amortized using the straight-line method over periods ranging from 20 to 40 years. Related accumulated amortization at April 30, 1998 and 1997 was \$1,205,000 and \$1,053,000, respectively.

LONG-TERM ASSETS

InnoServ evaluates the carrying value of long-term assets, including goodwill, based upon future anticipated undiscounted cash flows and recognizes an impairment when it is probable that such estimated future cash flows will be less than the carrying value of the asset.

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INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) REVENUES

Generally, revenues are recognized when services are rendered or when parts, supplies and equipment are shipped. Revenues from the sale of major items of equipment are recognized when the customer accepts the equipment. Such acceptance is generally conditioned upon successful installation of the equipment on the customer's premises. Revenues under lease agreements are recognized ratably over the term of the lease.

Amounts invoiced in advance of the provision of service under maintenance contracts are not included in receivables if payment has not been received as of the balance sheet date. Such amounts are classified as deferred revenues if payment was received as of the balance sheet date.

INTEREST EXPENSE, NET

Interest expense is net of interest income of \$83,000, \$33,000, and \$22,000 for the years ended April 30, 1998, 1997, and 1996, respectively.

STOCK BASED COMPENSATION

InnoServ grants stock options for a fixed number of shares to employees and non-employee directors with an exercise price equal to the fair value of the underlying common stock at the date of grant. InnoServ has elected to follow Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options because, as discussed in Note 6, the alternative fair value accounting provided for under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of InnoServ's stock

options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Proceeds from common stock issued pursuant to InnoServ's employee stock option plans are credited to common stock and paid-in capital at the time an option is exercised.

EARNINGS PER SHARE

Basic earnings per share amounts are computed based upon the weighted average shares of common stock outstanding during each period. Outstanding stock options, if dilutive, are included in the computation of diluted earnings per share.

3. SUPPLEMENTAL CASH FLOW DISCLOSURE

Interest and income taxes paid in the years ended April 30, 1998, 1997 and 1996 were as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Interest.....	\$ 81	\$ 211	\$ 209
Income taxes.....	\$ 13	\$ 55	\$ 20

</TABLE>

INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

4. ASSET SALES

On March 17, 1997, InnoServ sold substantially all of the net assets of Advanced Imaging Technologies, Inc. ("AIT") for \$788,000 in cash, which approximated the net carrying value of such assets. In connection with the sale, InnoServ also entered into a consulting agreement pursuant to which InnoServ received \$180,000. InnoServ believes all services which were required to be provided under the consulting agreement were provided before April 30, 1997. Accordingly, the amount received by InnoServ for consulting services is reflected as "Other income" in the Consolidated Statement of Operations for fiscal 1997. Revenues for AIT in fiscal 1998, 1997, and 1996 were \$0, \$5,221,000, and \$6,186,000, respectively.

5. LONG-TERM DEBT

Long-term debt at April 30, 1998 and 1997 consisted of the following (in thousands):

<TABLE>
<CAPTION>

	APRIL 30, 1998	APRIL 30, 1997
<S>	<C>	<C>
Bank term loan.....	\$ 479	\$1,073
Capital lease obligations payable through December 1997, at a fixed rate of interest of 9.56%.....	--	35
	479	1,108
Less amount classified as current.....	(479)	(629)
Total long-term debt.....	\$ --	\$ 479

</TABLE>

On April 14, 1997, InnoServ entered into a new loan agreement with a bank pursuant to which amounts outstanding under InnoServ's prior revolving line of credit and term loan agreements with the bank were converted into a new term loan aggregating \$1,198,000. Borrowings under the new term loan bear interest at the rate of prime (8.5% at April 30, 1998) plus 1% per annum. Monthly installments of \$54,000 plus interest are required through January 8, 1999.

Obligations under the loan agreement are secured by a security interest in InnoServ's accounts receivable, inventory and capital equipment. The loan agreement contains financial covenants including maintenance of certain financial ratios, net worth requirements, and restrictions on future borrowings and payment of dividends. As a result of the net loss for the period, InnoServ failed to meet the net worth covenant, the current ratio and the cash flow ratio required under the loan agreement as of April 30, 1998. InnoServ's bank waived these events of noncompliance effective April 30, 1998 and through September 30, 1998 for the net worth covenant and the current ratio and through January 8, 1999 for the cash flow ratio. As a result of the \$2,800,000 in proceeds received on June 5, 1998 from the issuance of the Preferred Shares (see Note 15), InnoServ expects to be in compliance with the net worth covenant and current ratio at September 30, 1998.

The outstanding principal balance of \$479,000 on long-term debt is required to be paid under the terms of the loan agreement in the year ending April 30, 1999.

6. STOCK OPTIONS

InnoServ has an incentive plan which provides for the granting of stock options to key employees and non-employee directors to purchase common stock at a purchase price of not less than fair market value, as defined by such plan, on the date of the grant. InnoServ has also entered into a stock option agreement

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INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

6. STOCK OPTIONS (CONTINUED)

with its chief executive officer to purchase 150,000 shares of common stock at a purchase price that was equal to the fair market value of the common stock at the time of grant. The options granted under the plan and agreement are exercisable in three equal installments over a three year vesting period and expire over periods ranging from five to ten years after the grant date. The changes in stock options outstanding for the years ended April 30, 1998, 1997 and 1996 were as follows:

<TABLE>

<CAPTION>

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
	-----	-----
<S>	<C>	<C>
Outstanding at April 30, 1995.....	327,834	\$4.34
Granted.....	373,000	3.51
Canceled.....	(266,934)	4.39
	-----	-----
Outstanding at April 30, 1996.....	433,900	3.60
Granted.....	46,000	3.52
Canceled.....	(48,500)	3.35
	-----	-----
Outstanding at April 30, 1997.....	431,400	3.62
Granted.....	46,000	2.59
Canceled.....	(72,200)	3.42
	-----	-----
Outstanding at April 30, 1998.....	405,200	\$3.52
	-----	-----
Options exercisable at April 30, 1998.....	245,872	\$3.66
	-----	-----
Options exercisable at April 30, 1997.....	152,069	\$3.77
	-----	-----
Options exercisable at April 30, 1996.....	44,500	\$4.06
	-----	-----

</TABLE>

The weighted average fair value of options granted during fiscal 1998 is \$1.03.

At April 30, 1998 and 1997, there were 74,800 and 48,600 shares of common stock available for future grants, respectively. The outstanding options at April 30, 1998 had exercise prices ranging from \$1.50 to \$5.25 per share and the weighted average remaining contractual life of such options was 5.6 years.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if InnoServ had accounted for its stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for fiscal 1998, 1997 and 1996, respectively: risk-free interest rates of 5.76%, 6.25% and 6.25%; no expected dividend yields for all years; volatility factors of the expected market price of InnoServ's common stock of .373, .405 and .504; and a weighted-average expected life of all options of 4.5 years.

The Black-Scholes option valuation model is used in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and the average life of options. Because InnoServ's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

6. STOCK OPTIONS (CONTINUED)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense on a straight-line basis over the options' vesting period. The pro forma effects on the net loss for fiscal 1998, 1997 and 1996 are not representative of the pro forma effect on net income in future years because they do not take into consideration pro forma compensation expense related to grants made prior to fiscal 1996. InnoServ's pro forma information follows (in thousands of dollars, except for earnings per share information):

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Pro forma net loss.....	\$ (2,812)	\$ (1,679)	\$ (7,232)
Pro forma net loss per share--basic and diluted.....	\$ (0.69)	\$ (0.33)	\$ (1.44)

</TABLE>

7. SHARES AND WARRANT REPURCHASE

Pursuant to a stock purchase agreement dated November 13, 1997 (the "MEDIQ Agreement"), by and among InnoServ and MEDIQ Incorporated and MEDIQ Investment Services, Inc. (collectively, "MEDIQ"), InnoServ repurchased from MEDIQ 2,026,438 shares of InnoServ's common stock (the "MEDIQ Shares") and a warrant to purchase 325,000 shares of InnoServ's common stock ("Warrant"). Such 2,026,438 shares represented approximately 40 percent of the then outstanding shares of common stock of InnoServ. The MEDIQ Shares and Warrant had been issued to MEDIQ in connection with InnoServ's acquisition of MEDIQ Equipment and Maintenance Services, Inc. ("MEMS"), a wholly-owned subsidiary of MEDIQ, in August 1994.

The MEDIQ Shares and Warrant were repurchased in exchange for an agreement that InnoServ would not enter into or consummate a change of control (as defined in the MEDIQ Agreement) unless the other party or parties thereto agree, as a condition precedent to such transaction, to pay to MEDIQ the amount that would have been received by MEDIQ in connection with the change of control transaction if all of the MEDIQ Shares were outstanding and held by MEDIQ at the effective time of such change of control transaction. The MEDIQ Agreement further provides that, after April 1, 1998 and through September 30, 1998, InnoServ shall not enter into or consummate a change of control unless the other party or parties thereto agree, as a condition precedent to such transaction, to pay MEDIQ 50% of

the amount that would have been received by MEDIQ in connection with the change of control transaction if all of the MEDIQ Shares were outstanding and held by MEDIQ at the effective time of such change of control transaction. MEDIQ and InnoServ are currently in dispute as to the amount that would be owed to MEDIQ under the terms of the MEDIQ Agreement upon consummation of the Merger (as hereinafter defined) with General Electric Company (see Note 15).

Additionally, in connection with the transaction, MEDIQ and InnoServ agreed to terminate certain continuing arrangements including the right to designate two directors. Consequently, Thomas E. Carroll, President and Chief Executive Officer of MEDIQ, who had been serving at MEDIQ's designation, resigned from InnoServ's Board of Directors. Michael Sandler, the former Chief Financial Officer of MEDIQ, who also had been serving at MEDIQ's designation, continues as a director of InnoServ.

8. RETIREMENT PLAN

InnoServ sponsors a voluntary retirement benefit plan (the "Plan") under the provisions of Section 401(k) of the Internal Revenue Code. The Plan is available to all employees of InnoServ who have

INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

8. RETIREMENT PLAN (CONTINUED)

completed three months of continuous service and are age twenty-one or older. Employee contributions are based on a percentage of pre-tax compensation as elected by the employee to a maximum of 15 percent. InnoServ contributes an amount equal to 25 percent of the employee's pre-tax contributions limited to a maximum matching of \$500 annually. InnoServ's costs related to the Plan for the years ended April 30, 1998, 1997 and 1996 were \$72,000, \$96,000, and \$85,000, respectively.

9. SPECIAL CHARGES

In fiscal 1996, InnoServ's management team undertook a detailed assessment of InnoServ's internal operations, customers, competition, and InnoServ's positioning within its marketplace. This assessment led to a strategic focus which emphasizes the asset management capabilities and services of InnoServ Technologies Maintenance Services, Inc. In support of this strategy, InnoServ adopted a plan to reorganize its operations and evaluated the realization of its assets. The financial impact of these actions was recorded as special charges of approximately \$2,267,000 in the fourth quarter of fiscal 1996. These charges were included in cost of operations and consisted of the following (in thousands):

<TABLE> <S>	<C>
Inventory:	
Writedown for impairment of inventory(1).....	\$ 1,003
Writedown of equipment held for resale(2).....	292
Writedown for physical inventory of spare parts.....	192
Other.....	149

	1,636
Capitalized development costs expensed(3).....	394
Severance arrangements(4).....	154
Equipment accumulated depreciation(5).....	83

	\$ 2,267

</TABLE>

Notes:

(1) Represents the unamortized balance of spare parts inventory no longer required to support InnoServ's on-going business.

- (2) Certain CT scanners and other equipment held for resale were written down to their estimated market value.
- (3) Engineering development costs of certain diagnostic software which were previously capitalized have been charged to expense.
- (4) Relates to severance amounts estimated to be paid to employees as a result of InnoServ's plan to reorganize its operations to strategically focus on its asset management business.
- (5) Represents additional depreciation as a result of lowering the estimated useful lives of certain equipment.

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INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

10. INCOME TAXES

The provision (benefit) for income taxes for the years ended April 30, 1998, 1997 and 1996 consisted of the following (in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ --	\$ --	\$ (868)
State.....	18	(47)	--
	-----	-----	-----
	18	(47)	(868)
Deferred:			
Federal.....	--	--	2,983
State.....	--	--	364
	-----	-----	-----
	--	--	3,347
	-----	-----	-----
	\$ 18	\$ (47)	\$ 2,479
	-----	-----	-----

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the net deferred tax asset at April 30, 1998 and 1997 were as follows (in thousands):

<TABLE>
<CAPTION>

	APRIL 30, 1998	APRIL 30, 1997
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 3,797	\$ 3,137
Tax credits.....	1,400	1,400
Accrued expenses.....	214	350
Allowance for doubtful accounts.....	330	335
Inventory.....	419	343
Deferred compensation.....	223	268
Capital equipment.....	33	--
	-----	-----
Gross deferred tax asset.....	6,416	5,833
Valuation allowance for deferred tax asset.....	(6,416)	(5,513)
	-----	-----
Total deferred tax asset.....	--	320
Deferred tax liabilities:		
Capital equipment.....	--	(320)
	-----	-----

Net deferred tax asset.....	\$	--	\$	--
	-----		-----	
	-----		-----	

</TABLE>

In accordance with SFAS No. 109, "Accounting for Income Taxes", InnoServ has recorded a valuation allowance to reduce its net deferred tax asset potentially available to InnoServ to the amount that is "more likely than not to be realized". The ultimate realization of the deferred tax assets depends on the ability of InnoServ to generate sufficient taxable income in the future. Due to the cumulative losses incurred in

INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

10. INCOME TAXES (CONTINUED)

recent years the deferred tax assets do not currently meet the criteria for recognition under SFAS No. 109 and, accordingly, the net deferred asset has been reduced to zero.

The net change in the valuation allowance during fiscal 1998 was \$903,000. Approximately \$1,214,000 of the recorded valuation allowance of \$6,416,000 relates to deferred tax assets resulting from the acquisition of MEMS, a wholly-owned subsidiary of MEDIQ, on August 3, 1994. To the extent realized, any tax benefit related to the valuation allowance arising from the acquisition will be applied to reduce costs in excess of net assets acquired.

The following is a reconciliation of income tax computed at the U.S. federal statutory tax rates to the rates utilized to compute the provision (benefit) for income taxes for the years ended April 30, 1998, 1997, and 1996:

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Tax at U.S. statutory rates.....	(34.0)%	(34.0)%	(34.0)%
State income taxes net of federal tax benefit.....	(2.9)	(3.5)	(3.8)
Change in valuation allowance.....	34.0	30.7	88.6
Other.....	3.6	3.8	1.8
	-----	-----	-----
	0.7%	(3.0)%	52.6%
	-----	-----	-----
	-----	-----	-----

</TABLE>

For federal income tax purposes, InnoServ has approximately \$1,200,000 of investment tax credit carryforwards which expire between 2000 through 2002. InnoServ also has an alternative minimum tax credit carryforward of approximately \$200,000 for federal income tax purposes. InnoServ has net operating loss carryforwards for federal income tax purposes of approximately \$9,905,000 as of April 30, 1998 which will begin to expire in 2011.

As a result of the transactions pursuant to the MEDIQ Agreement (see Note 7), InnoServ has potentially undergone a change in ownership under Internal Revenue Code Section 382. If such change in ownership has occurred, an annual limitation may be applicable to the utilization of net operating loss and other tax credit carryforwards. Such a limitation could cause a portion of such carryforwards to go unused.

11. EARNINGS PER SHARE

In 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share". SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented and, where necessary, restated to conform to the SFAS No. 128 requirements.

Basic and diluted per share amounts were the same for all periods presented, as stock options to purchase shares of common stock were not included in the computation of diluted earnings per share as they were antidilutive. At April 30, 1998, stock options to purchase 405,200 shares of common stock were outstanding and could potentially dilute earnings per share in future periods.

INNOSERV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

12. OPERATING LEASES

InnoServ leases real properties under operating leases expiring on various dates through September 2001. Some of the leases contain renewal options. All real property leases require the payment by InnoServ of property taxes, maintenance, insurance and other incidental expenses. Rent expense for the years ended April 30, 1998, 1997, and 1996 was approximately \$702,000, \$732,000, and \$779,000, respectively.

Future minimum rental payments, including interest thereon, under noncancelable operating leases with third parties at April 30, 1998 were as follows (in thousands):

<TABLE>
<CAPTION>

FISCAL YEAR ENDING	OPERATING LEASES
<S>	<C>
1999.....	\$ 613
2000.....	551
2001.....	551
2002.....	230
2003.....	--

	\$ 1,945

</TABLE>

13. COMMITMENTS AND CONTINGENCIES

InnoServ is involved in various legal actions, claims and proceedings of a nature considered normal to the conduct of its business. InnoServ believes, after reviewing such matters and consulting with counsel, that any liability which may ultimately be incurred with respect to these matters is not expected to have a material effect on either InnoServ's financial condition or results of operations.

14. MAJOR CUSTOMER

InnoServ provides asset management services to IHC Health Services, Inc. ("IHC") under an agreement which expires on December 31, 2000. Revenues from IHC under this asset management services agreement for the years ended April 30, 1998, 1997 and 1996 amounted to approximately 13 percent, 9 percent and 3 percent of consolidated revenues, respectively.

15. SUBSEQUENT EVENT

On May 19, 1998, InnoServ entered into an Agreement and Plan of Merger ("Merger Agreement") with General Electric Company ("GE") whereby GE Medical Systems, a division of GE, will acquire all of the outstanding common stock of InnoServ for \$16,000,000 in cash (the "Merger"), including the MEDIQ Payment (as hereinafter defined) and the Escrow Payment (as hereinafter defined). After payments to MEDIQ pursuant to the MEDIQ Agreement dated November 13, 1997 (see Note 7), holders of InnoServ common stock will receive a range of consideration between approximately \$3.97 and \$4.25 per share, depending upon the amount payable to MEDIQ, upon consummation of the Merger.

MEDIQ and InnoServ are currently in dispute as to the amount that would be owed to MEDIQ under the terms of the MEDIQ Agreement upon consummation of the

Merger. If InnoServ and GE had entered into or consummated a change of control on or prior to April 1, 1998, MEDIQ would have been entitled to \$6,437,994, based upon the Merger consideration, upon consummation of the Merger. Pursuant to a letter agreement dated May 19, 1998, among InnoServ, MEDIQ and GE (the "Letter Agreement"), MEDIQ has

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INNOSEV TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

15. SUBSEQUENT EVENT (CONTINUED)

acknowledged that it believes that, based on the accuracy of the representations described below, it will be owed \$4,052,876 upon consummation of the Merger, while InnoServ has acknowledged that it believes that MEDIQ will be owed \$3,218,997, which amount is 50% of \$6,437,994. The Merger Agreement provides for the payment on the effective date of the Merger by GE (i) to MEDIQ of an amount equal to \$3,218,997 (the "MEDIQ Payment") and (ii) to an escrow agent of an amount equal to \$833,879 (the "Escrow Payment"), to be held pursuant to an escrow agreement by and between MEDIQ and InnoServ.

Under the terms of the Letter Agreement, MEDIQ also released InnoServ from any further obligations under the MEDIQ Agreement, contingent upon the receipt of the MEDIQ Payment and subject to the representations of InnoServ and GE that such parties did not affirmatively delay any such change of control transaction and that a description (provided to MEDIQ) of the parties' discussions with respect to the Merger was materially correct and not misleading. In connection with the arbitration of the dispute over whether MEDIQ is owed \$4,052,876 or \$3,218,997, MEDIQ has advised InnoServ that it has concerns as to the accuracy of such representations and that MEDIQ will require discovery with respect to that issue. While InnoServ believes that the representations are accurate, MEDIQ may nevertheless claim that they are not accurate and demand that the full amount of \$6,437,994 be paid to MEDIQ upon consummation of the Merger. Although InnoServ believes that any such claim would be without merit, there is no assurance, if such a claim is asserted, that InnoServ will prevail on the issue in the arbitration proceeding or otherwise; however, the ultimate resolution of this issue will have no effect on the amount of consideration to be received by InnoServ shareholders.

The obligations of InnoServ and GE to consummate the Merger are subject to fulfillment or waiver of the following conditions: (i) approval of the Merger Agreement by the shareholders of InnoServ; (ii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") and the absence of any order by any governmental entity restraining, enjoining or prohibiting the Merger; (iii) the performance in all material aspects of the agreements of each party, respectively, under the Merger Agreement and the receipt by each party of certificates from an officer of the other party to such effect; (iv) the representations and warranties contained in the Merger Agreement of each party, respectively, being correct and true as of the effective date of the Merger (except where the failure to be so true, individually or in the aggregate, with other such failures would not have a material adverse effect as such term is defined in the Merger Agreement), and the receipt by each party of certificates from an officer of the other party to such effect; and (v) the receipt by GE of an opinion of counsel of InnoServ.

GE and InnoServ will close the Merger transaction as soon as all necessary approvals are obtained, which is expected to occur in late August 1998.

Certain InnoServ shareholders, representing 53 percent of InnoServ shares (an amount sufficient to approve the Merger), have entered into agreements with GE to vote in favor of the Merger.

GE and InnoServ filed notification and report forms with the U.S. Department of Justice (the "DOJ") and the Federal Trade Commission (the "FTC") seeking early termination of the HSR Act on December 24, 1997 and December 30, 1997, respectively. On July 14, 1998, GE and InnoServ received written notice that the FTC has granted early termination of the waiting period under the HSR Act. Pursuant to the terms of the Merger Agreement, GE and InnoServ entered into a side agreement dated May 19, 1998 (the "Side Agreement"), wherein GE had agreed to pay InnoServ \$1,200,000 if the DOJ did not grant

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

APRIL 30, 1998

15. SUBSEQUENT EVENT (CONTINUED)

early termination or expiration of the waiting period under the HSR Act prior to the later of (i) June 22, 1998 or (ii) the date of the meeting of the shareholders of InnoServ at which the Merger is approved. Since early termination has been granted, no amount is payable by GE to InnoServ under the Side Agreement.

Under the terms of the Merger Agreement, GE purchased 700,000 shares of a newly created Series B Preferred Stock of InnoServ ("Preferred Shares") for \$2,800,000, which payment was received by InnoServ on June 5, 1998. The Preferred Shares have no voting rights, accrue dividends of \$0.32 per share per annum beginning six months from the issuance of such shares, whether or not earned or declared, have a liquidation value of \$4.00 per share plus any accrued but unpaid dividends, and are redeemable by InnoServ at anytime, but mandatory on May 19, 2008, at a price equal to \$4.00 per share plus any accrued but unpaid dividends. Each Preferred Share is also convertible into common stock of InnoServ, at the option of the holders, at anytime after the earlier of (i) the consummation of a reorganization of InnoServ with a third party or (ii) the later of (A) September 30, 1998 or (B) the termination of the Merger Agreement.

As of April 30, 1998, InnoServ recorded prepaid expenses of \$114,000 for direct costs associated with the Merger Agreement. In the event the Merger does not close, this amount, in addition to other estimated direct costs of \$350,000, will be charged to income.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Unaudited summarized financial data by quarter for the years ended April 30, 1998 and 1997 were as follows (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
1998				
Revenues.....	\$ 9,144	\$ 9,207	\$ 9,210	\$ 9,328
Gross profit.....	1,543	1,273	891	583
Loss before income taxes.....	(252)	(467)	(845)	(1,082)
Net loss.....	(252)	(467)	(845)	(1,100)
Net loss per share--basic and diluted(a).....	\$ (0.05)	\$ (0.09)	\$ (0.26)	\$ (0.37)
Weighted average shares--basic and diluted(a).....	5,036	5,036	3,274	3,009
1997				
Revenues.....	\$ 11,788	\$ 10,684	\$ 10,231	\$ 9,684
Gross profit.....	1,765	1,563	2,102	1,103
Income (loss) before income taxes(b).....	(627)	(456)	36	(573)
Net income (loss).....	(627)	(456)	36	(526)
Net income (loss) per share--basic and diluted(a).....	\$ (0.12)	\$ (0.09)	\$ 0.01	\$ (0.11)
Weighted average shares--basic and diluted(a).....	5,036	5,036	5,036	5,036

</TABLE>

(a) Reflects the adoption of SFAS No. 128 (see Note 11).

(b) Loss before income taxes in the fourth quarter of fiscal 1997 included a reduction of approximately \$500,000 in certain reserves for sales allowances and other liabilities. Such reductions were a result of management's ongoing evaluation of estimated obligations.

<TABLE>
<CAPTION>

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS/ WRITE-OFFS	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>
ALLOWANCE FOR DOUBTFUL ACCOUNTS				
April 30, 1996.....	\$ 1,429	\$ (89)	\$ (325)	\$ 1,015
April 30, 1997.....	1,015	(8)	(97)	910
April 30, 1998.....	910	80	(121)	869
ALLOWANCE FOR INVENTORY AMORTIZATION				
April 30, 1996.....	\$ 3,460	\$ 1,299	\$ (148)	\$ 4,611
April 30, 1997.....	4,611	850	(421)	5,040
April 30, 1998.....	5,040	909	(130)	5,819

</TABLE>

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item will be included in the Registrant's definitive Proxy Statement for InnoServ's Annual Meeting of Shareholders scheduled for October 13, 1998, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item will be included in the Registrant's definitive Proxy Statement for InnoServ's Annual Meeting of Shareholders scheduled for October 13, 1998, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item will be included in the Registrant's definitive Proxy Statement for InnoServ's Annual Meeting of Shareholders scheduled for October 13, 1998, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item will be included in the Registrant's definitive Proxy Statement for InnoServ's Annual Meeting of Shareholders scheduled for October 13, 1998, which will be filed with the Securities and Exchange Commission and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K.

(a) Financial Statements and Financial Statement Schedule:

The financial statements and schedule listed in the "Index to Consolidated Financial Statements and Financial Statement Schedule" included in Item 8 of Part II of this report, commencing at page 12, are filed as part of this report.

(b) Reports on Form 8-K:

During the three months ended April 30, 1998, no reports were filed by Registrant on Form 8-K.

(c) Exhibits:

The information required by this portion of Item 14 is set forth in the Index to Exhibits beginning on page 34.

POWER OF ATTORNEY

The Registrant and each person whose signature appears below hereby appoints each of Michael G. Puls and Thomas E. Hoefert as attorneys-in-fact, each with full power to act alone, to execute in the name and on behalf of the Registrant and any such person, individually and in each capacity stated below, one or more amendments to this report, which amendments may make such changes in this report as any of said attorneys-in-fact deems appropriate, and to file each such amendment to this report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

<TABLE>
<S> <C> <C>
INNOSERV TECHNOLOGIES, INC.
(REGISTRANT)
By: /s/ THOMAS HOEFERT

Thomas E. Hoefert
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
DATE: JULY 17, 1998
</TABLE>

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

NAME	TITLE	DATE
/s/ DUDLEY A. RAUCH ----- Dudley A. Rauch	Chairman of the Board of Directors	July 17, 1998
/s/ SAMUEL SALEN ----- Samuel Salen, M.D.	Vice Chairman and Secretary of the Board of Directors	July 17, 1998
/s/ MICHAEL G. PULS ----- Michael G. Puls	President and Chief Executive Officer, Director	July 17, 1998
/s/ THOMAS HOEFERT ----- Thomas E. Hoefert	Vice President and Chief Financial Officer, Principal Financial and Accounting Officer	July 17, 1998
/s/ BERNARD J. KORMAN ----- Bernard J. Korman	Director	July 17, 1998

</TABLE>

<TABLE>
<CAPTION>

NAME	TITLE	DATE
/s/ MICHAEL M. SACHS ----- Michael M. Sachs	Director	July 17, 1998
/s/ MICHAEL SANDLER		

----- Director
Michael F. Sandler

July 17, 1998

/s/ DAVID A. WEGMANN

----- Director
David A. Wegmann

July 17, 1998

</TABLE>

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INDEX TO EXHIBITS

<TABLE> <CAPTION> EXHIBIT NO.	DESCRIPTION OF EXHIBIT
-----	-----
<C>	<S>
2.1	Agreement of Merger and Plan of Reorganization dated May 18, 1994, among Registrant, MMI Acquisition Subsidiary, Inc., MEDIQ Incorporated and MEDIQ Equipment and Maintenance Services, Inc. (5).
3.1	Articles of Incorporation of the Registrant, as amended prior to September 14, 1988 (1).
3.2	Certificate of Amendment of Articles of Incorporation of the Registrant dated September 14, 1988 (3).
3.3	Certificate of Amendment of Articles of Incorporation of the Registrant dated September 26, 1995 (7).
3.4	Certificate of Determination of Preferences of Series A Preferred Stock of the Registrant (1).
3.5	Certificate of Amendment to Certificate of Determination of Preferences (3).
3.6	Bylaws of the Registrant, as amended (1).
4.1	Registration Agreement dated as of April 29, 1983 by and among the Registrant and certain investors (1).
4.2	Stock Purchase Agreement dated November 13, 1997 by and among Registrant, MEDIQ Incorporated and MEDIQ Investment Services, Inc. (13).
9.1	Voting Agreement dated as of April 29, 1983 between Dudley A. Rauch and certain investors (1).
10.1	Employee Stock Purchase Plan (2).
10.2	Stock Purchase Agreement dated as of July 17, 1985 among Registrant and the shareholders of R Squared Scan Systems, Inc. (2).
10.3	Form of Agreement of Indemnification between Registrant and Alan D. Margulis, Donald Moehring, M.D., Dudley A. Rauch, Michael Sachs, Samuel Salen, M.D., and David Wegmann as Directors and Ian MacSween, Alan D. Margulis, Christopher J. Purcell and Dudley A. Rauch as officers (3).
10.4	1992 Stock Incentive Plan (4).
10.5	Employment Agreement between MEDIQ Equipment and Maintenance Services, Inc. and J. Thomas Owings and Registrant (5).
10.6	Letter Agreement of Employment dated December 8, 1995 between Registrant and Michael G. Puls (7).
10.7	Form of Indemnity Agreement between Registrant and Thomas Carroll, Bernard Korman, Michael Puls, and Michael Sandler as Directors and Thomas Hoefert as an officer (6).
10.8	Loan Agreement dated as of December 15, 1995 by and between Registrant and Overton Bank & Trust, N.A. (6).
10.9	Revolving Credit Agreement dated as of August 12, 1996 in the principal amount of \$500,000 payable by the Registrant to Overton Bank & Trust, N.A. (8).
10.10	Revolving Credit Agreement dated as of October 12, 1996 in the principal amount of \$500,000 payable by the Registrant to Overton Bank & Trust, N.A. (9).
10.11	Revolving Credit Agreement dated as of November 12, 1996 in the principal amount of \$500,000 payable by the Registrant to Overton Bank & Trust, N.A. (9).

</TABLE>

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<TABLE> <CAPTION> EXHIBIT NO.	DESCRIPTION OF EXHIBIT
-------------------------------------	------------------------

<C> <S>

10.12 Form of Security Agreement dated as of November 12, 1996 between Overton Bank & Trust, N.A. and each of InnoServ Technologies, Inc., InnoServ Technologies Maintenance Services, Inc., Advanced Imaging Technologies, Inc. and Sietec, Inc. (9).

10.13 Letter dated December 12, 1996 amending the Loan Agreement dated as of December 15, 1995, by and between Registrant and Overton Bank & Trust, N.A. (9).

10.14 Stock Option Agreement dated as of December 11, 1996 by and between Registrant and Michael G. Puls (10).

10.15 Bonus Agreement dated December 20, 1996 between Registrant and Michael G. Puls (10).

10.16 Agreement dated March 28, 1997 amending the Bonus Agreement dated December 20, 1996 between Registrant and Michael G. Puls (11).

10.17 Loan Agreement dated as of April 14, 1997 by and between Registrant and Overton Bank & Trust, N.A.

10.18 Term Loan Agreement dated as of April 14, 1997 in the principal amount of \$1,197,573 payable by the Registrant to Overton Bank & Trust, N.A. (11).

10.19 Security Agreement dated April 14, 1997 by and between Registrant and Overton Bank & Trust, N.A.

10.20 Letter Agreement of Employment dated September 10, 1997 by and between Registrant and Thomas E. Hoefert (12).

10.21 Bonus Agreement dated as of September 29, 1997 between Registrant and Thomas E. Hoefert (12).

10.22 Letter dated December 5, 1997 amending the Loan Agreement dated as of April 14, 1997 by and between Registrant and Overton Bank & Trust, N.A. (12).

10.23 Letter dated March 6, 1998 waiving the violation of the cash flow covenant of the Loan Agreement dated as of April 14, 1997 by and between Registrant and Overton Bank & Trust, N.A. (14).

10.24 Agreement dated April 2, 1998 amending the Bonus Agreement dated December 20, 1996 between Registrant and Michael G. Puls.

10.25 Letter dated July 2, 1998 waiving the violation of certain financial covenants of the Loan Agreement dated as of April 14, 1997 by and between Registrant and Frost National Bank (formerly Overton Bank & Trust, N.A.).

21.1 Subsidiaries.

23.1 Consent of Independent Auditors.

27.1 Financial Data Schedule.

</TABLE>

-
- (1) Previously filed as an exhibit to the Registrant's Registration Statement on Form S-1 (No. 2-91168) and incorporated herein by reference.
 - (2) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended May 2, 1986.
 - (3) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended April 28, 1989.
 - (4) Previously filed as an exhibit to the Registrant's Registration Statement on Form S-8 (No. 33-66752) dated July 30, 1993.

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- (5) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended April 29, 1994.
- (6) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended January 31, 1996.
- (7) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended April 30, 1996.
- (8) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended July 31, 1996.

- (9) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended October 31, 1996.
- (10) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended January 31, 1997.
- (11) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended April 30, 1997.
- (12) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended October 31, 1997.
- (13) Previously filed as an exhibit to the Registrant's Form 8-K dated November 13, 1997.
- (14) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended January 31, 1998.

EXHIBIT 10.17 - LOAN AGREEMENT

<TABLE>

<S>

<C>

BORROWER
INNOSERV TECHNOLOGIES, INC.
4330 BELTWAY SUITE 300
ARLINGTON, TEXAS 76017

BANK
OVERTON BANK & TRUST, NATIONAL ASSOCIATION
PO BOX 150049
ARLINGTON, TEXAS 76015

</TABLE>

THIS LOAN AGREEMENT ("Agreement") is made and entered into this 14TH day of APRIL, 1997, by and between the Borrower and Bank named above.

IN CONSIDERATION OF THE MUTUAL COVENANTS AND AGREEMENTS CONTAINED HEREIN, IT IS AGREED AS FOLLOWS:

1. THE LOAN.

Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties of Borrower contained herein, Bank agrees to lend an amount not to exceed the sum of ONE MILLION ONE HUNDRED NINETY SEVEN THOUSAND FIVE HUNDRED SEVENTY THREE AND NO/100 DOLLARS (\$1,197,573.00) (the "Loan"). The Loan will be evidenced by Borrower's note (the "Note") payable to the order of Bank, with interest and principal being payable as therein provided.

2. PURPOSE OF LOAN: COMBINE TWO NOTES INTO ONE TERM LOAN

3. COLLATERAL.

The Note and all other obligations of Borrower to Bank shall be secured by, among other things, a first and superior security interest in the following property (collectively, the "Collateral")

ACCOUNTS RECEIVABLE, INVENTORY AND EQUIPMENT

Borrower shall execute such security agreements and other documents as Bank may require, from time to time, to further describe, create and perfect such security interests.

4. GUARANTIES.

The Loan will be unconditionally guaranteed as evidenced by guaranties executed by SIETEC, INC. AND INNOSERV TECHNOLOGIES MAINTENANCE SERVICES, INC. (collectively, "Guarantor", whether one or more).

/ / IF THIS BOX IS CHECKED, THE FOLLOWING PARAGRAPH 5 SHALL BE PART OF THIS AGREEMENT.

5. BORROWING BASE.

The term "Borrowing Base" means an amount determined at any time as the sum

of % of the Eligible Accounts Receivable of Borrower and % of Borrower's Eligible Inventory. As used herein, the term "Eligible Accounts Receivable" shall mean, at any particular time, all accounts receivable of Borrower which are subject to a perfected first priority security interest in favor of Bank, EXCLUDING (i) all accounts receivable that are greater than () days old from the original date of the invoice, and (ii) any account that is subject to any dispute, offset, counterclaim or other claim or defense on the part of the account debtor denying liability under such account, and (iii) the amount of all such accounts arising out of contracts or orders which, by their terms, forbid an assignment or which make such an assignment void and unenforceable, and (iv) any account receivable of Borrower from any officer, stockholder, director or related company of Borrower. As used herein, the term "Eligible Inventory" shall mean, at any particular time, all salable inventory then owned by Borrower and held for sale or disposition in the ordinary course of business, in which Bank has a perfected first priority security interest, valued at the

lower of cost or market, EXCLUDING any work-in-process. For purposes of determining the Borrowing Base, the Eligible Inventory shall not exceed at any time the sum of \$.

Borrower shall at all times maintain a Borrowing Base of not less than the outstanding balance owing on the Note. If, as a result of Bank's determination, the Borrowing Base should ever become less than the outstanding balance owing under the Note, or any renewals or extensions thereof, Bank may notify Borrower of the insufficiency, and within () days of Bank's giving notice, Borrower shall either pay the indebtedness down to the Borrowing Base or increase the Borrowing Base up to the amount of the outstanding balance of the Note. Bank's determination of the Borrowing Base and whether Collateral qualifies for inclusion in such Borrowing Base, will be final.

6. REPRESENTATIONS AND WARRANTIES.

To induce Bank to enter into this Agreement and to advance funds from time to time, and for Bank's reliance in so doing, Borrower warrants and represents to Bank as follows:

A. GOOD STANDING. Borrower is a corporation duly organized and in good standing under the laws of the State of CALIFORNIA AND TEXAS, and has the power to own its properties and carry on its business in each jurisdiction in which Borrower operates.

B. AUTHORITY AND COMPLIANCE. Borrower has full power and authority to enter into this Agreement, to make the borrowing hereunder, to execute and deliver the Note and to incur the obligations provided for herein, all of which has been duly authorized by all proper and necessary corporate action. No consent or approval of stockholders or of any public authority is required as a condition to the validity of this Agreement or the Note, and Borrower is in compliance with all laws and regulatory requirements to which it is subject.

C. BINDING AGREEMENT. This Agreement constitutes, and the Note when issued and delivered pursuant hereto for value received will constitute, valid and legally binding obligations of Borrower enforceable in accordance with their terms.

D. LITIGATION. There are no proceedings pending or, to the knowledge of Borrower, threatened before any court or administrative agency which will or may have a material adverse effect on the financial condition or operations of Borrower or any subsidiary or any Guarantor, except as disclosed to Bank in

writing prior to the date of this Agreement.

E. NO CONFLICTING AGREEMENTS. There are no charter, bylaw or stock provisions of Borrower and no provisions of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting its property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the Note.

F. OWNERSHIP OF ASSETS. Borrower has good and marketable title to any Collateral pledged and the Collateral is owned free and clear of liens. Borrower will at all times maintain its tangible property, real and personal, in good order and repair taking into consideration reasonable wear and tear.

G. TAXES. All income taxes and other taxes due and payable by Borrower to the date of this Agreement have been paid prior to becoming delinquent.

H. FINANCIAL STATEMENTS. All financial statements and financial information of Borrower and Guarantor which have been delivered to Bank have been presented in conformity with generally accepted accounting principles and fairly and accurately represent the financial condition of the Borrower and Guarantor, as of the date of such financial statements or reports, and since such dates, there has been no material adverse changes in the financial condition of Borrower or Guarantor.

I. NO DEFAULTS. Borrower and Guarantor are not in default with respect to any obligation to which Borrower or Guarantor is a party or by which Borrower or Guarantor, or any of Borrower's or Guarantor's properties is bound.

7. AFFIRMATIVE COVENANTS.

In addition to the other agreements contained herein, Borrower covenants and agrees that from the date hereof and until payment in full of principal and interest owing under the Note, unless Bank shall otherwise consent in writing, Borrower will do the following:

A. BORROWER'S FINANCIAL STATEMENTS. Borrower shall furnish to Bank: (i) as soon as available and in any event within ONE HUNDRED TWENTY (120) days after the end of each fiscal year of Borrower, a copy of Borrower's annual AUDITED financial statement consisting of at least a balance sheet and statement of income and retained earnings; (ii) on a quarterly basis, financial statements, to include balance sheet and profit and loss statement, within FORTY FIVE (45) days after the end of each such accounting period; (iii) if Paragraph 5 above is applicable to this Agreement, furnish Bank on a monthly basis a Borrowing Base report in such form as Bank may require and an aging of accounts receivable of Borrower, such report and aging to be delivered to Bank not later than N/A (N/A) days after the end of each calendar quarter; and (iv) promptly upon request, such additional information, tax returns, officer's certificates, reports or statements respecting its business operations and financial condition as Bank may reasonably request from time to time.

B. Omitted. d

C. INSURANCE. Maintain insurance with responsible insurance companies on such of its properties, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, specifically to include a policy of fire and extended coverage insurance covering all assets, business interruption insurance and liability insurance, all to be with such companies and in such amounts satisfactory to Bank and to contain a mortgage

clause naming Bank as its interest may appear. Evidence of such insurance shall be supplied to Bank.

D. CORPORATE EXISTENCE AND COMPLIANCE. Maintain its corporate existence in good standing and comply with all laws, regulations and governmental requirements applicable to it or to any of its property, business operations and transactions.

E. ADVERSE CONDITIONS OR EVENTS. Promptly advise Bank in writing of any condition, event or act which comes to its attention that would or might materially affect Borrower's or any Guarantor's financial condition, Bank's rights in or to the Collateral under this Agreement or the Loan documents, and of any litigation filed against Borrower or any Guarantor.

F. TAXES. Pay all taxes as the same become due and payable.

G. MAINTENANCE. Maintain all of its tangible property in good condition and repair and make all necessary replacements thereof, and preserve and maintain all licenses, privileges, franchises, certificates and the like necessary for the operation of its business.

H. INSPECTION. Permit Bank, its officers, employees and agents, to inspect the Collateral and all records of Borrower pertaining to the Collateral, at Borrower's place of business as set forth above, and to make and remove copies of such records. Borrower shall promptly pay to Bank the reasonable costs and expenses of any Collateral audit performed by or for Bank.

I. PAYMENT OF DEBTS. Pay all indebtedness and obligations of Borrower as the same become due in accordance with the terms of the instruments or documents evidencing the same.

J. FINANCIAL COVENANTS. In accordance with generally accepted accounting principles, Borrower shall:

- (a) maintain a tangible net worth of not less than \$4,500,000;
- (b) maintain a ratio of current assets to current liabilities of not less than 1.0 to 1.0;
- (c) not permit the ratio of Borrower's total liabilities to tangible net worth to be more than N/A to 1.0;
- (d) maintain a ratio of after tax net income plus depreciation to current maturities of long-term debt of not less than N/A to 1.0; and
- (e) other financial covenants, if applicable:
 - 1) No cash dividends,
 - 2) No further notes receivable due from equipment sales, other than those that are on the books as of 12-15-95,
 - 3) Primary depository account to be maintained w/Overton Bank and Trust, including use of lockbox,
 - 4) Cash flow ratio of 1.0 to 1.0, defined as net income after taxes plus depreciation and amortization divided by CMLTD, calculated on a quarterly basis using the last twelve months of operation.

8. NEGATIVE COVENANTS.

In addition to the other agreements contained herein, Borrower agrees that, so long as the Loan pursuant to this Agreement is outstanding, Borrower will not, unless Bank shall otherwise consent in writing:

- A. Incur or suffer to exist any indebtedness except (i) indebtedness to Bank, (ii) indebtedness to trade creditors incurred in the ordinary course of its business, (iii) for purchase money on lease vehicles, all of which are necessary to conduct the normal course of Borrower's business, above \$500,000 on a cumulative basis per financial year;
- B. Enter into any merger or consolidation, or sell, lease, assign or otherwise dispose of or transfer any of its assets except in the ordinary course of its business;
- C. Become a guarantor, endorser or contingently liable on any debt;
- D. Make any advances or loans (directly or indirectly) to any director, officer, employee or shareholder of Borrower;
- E. Engage in any business which differs substantially or materially from the business which Borrower is presently engaged in;
- F. Create or permit to exist any mortgage, lien or other encumbrance, except as permitted herein, with respect to any assets now owned by Borrower or hereafter acquired, except purchase money liens on equipment and/or vehicles not currently owned by Borrower;
- G. Substantially change its present executive or management personnel.

9. EVENTS OF DEFAULT; REMEDIES.

The occurrence of any of the following shall constitute an event of default hereunder: (i) the failure or refusal of Borrower to timely perform any term, covenant or agreement contained herein, (ii) any representation or warranty contained herein or in any financial statement, report or certificate submitted to Bank in connection with the Loan or pursuant to the requirements of this Agreement shall prove to have been incorrect or misleading in any material respect when made, (iii) default shall occur under the terms of the Note or any security document now or hereafter securing payment of the Note or under any other promissory note executed by Borrower and held by Bank, or (iv) if Bank, in good faith believes that the prospect of payment or the prospect of performance by Borrower hereunder or under the Note or security documents is impaired. Likewise, a default hereunder shall constitute a default under the Note and all security documents securing payment of the Note and all other promissory notes executed by Borrower and held by Bank. Upon the occurrence of any such default, Bank shall have the option to declare immediately due and payable all outstanding principal plus unpaid interest on the Note, and Bank shall have no further obligation to fund under this Agreement. Upon the occurrence of a default, Bank

shall be entitled to exercise any and all remedies (i) under the Note and any security document securing payment of the Note, and (ii) available to Bank at law or in equity.

10. MISCELLANEOUS.

A. CUMULATIVE RIGHTS AND NO WAIVER. Each and every right granted to Bank hereunder or under any other document delivered hereunder or in connection herewith, or allowed by law or equity shall be cumulative of and may be exercised in addition to any and all other rights of Bank, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Bank of any right preclude any other or future exercise thereof, or the exercise of any other right. Any of the foregoing covenants and agreements may be waived by Bank, but only in writing, signed by a vice president or higher level officer of Bank. Borrower expressly waives any presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other notice of any kind. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or further notice or demand in similar or other circumstances.

B. GOVERNING LAW. THIS AGREEMENT IS BEING DELIVERED AND IS INTENDED TO BE PERFORMED IN THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS. ALL OBLIGATIONS HEREUNDER ARE PERFORMABLE IN TARRANT COUNTY, TEXAS.

C. BINDING EFFECT. This Agreement shall inure to the benefit of and be enforceable by Bank and any assignee or participant of Bank, and shall bind Borrower and its successors and assigns; provided, however, that Borrower may not assign its rights or obligations hereunder without the prior written approval of Bank.

D. TEXAS CREDIT CODE. Chapter 15 of the Texas Credit Code shall not apply to the Loan contemplated hereby.

E. EXPENSES. Borrower agrees to pay all out-of-pocket expenses of Bank in connection with this Agreement and the collection of the Note.

F. RENEWAL. While the Bank is under no obligation to renew any indebtedness incurred pursuant to the terms of this Agreement at maturity (or any renewal or extension term), in the event the Note is renewed, this Agreement shall apply to said renewal and the representations and warranties made by Borrower herein shall be deemed to be made again as of the date of any such renewal. The term "Note" shall include any renewal note.

G. TIME OF ESSENCE. Time is of the essence of this Agreement.

H. NO FIDUCIARY RELATIONSHIP. Borrower acknowledges and agrees that the relationship between Borrower and Bank is solely that of debtor/creditor and in no event shall Bank be considered as a partner of Borrower or otherwise have any fiduciary duties to Borrower or Guarantor.

I. USURY SAVINGS. The parties hereto intend to comply with all usury laws applicable to national banks and the subject Loan. Nothing contained herein, in the Note or in any of the security documents shall authorize the collection or constitute charging of interest in excess of that permitted by applicable law.

J. INDEMNIFICATION OF BANK. BORROWER SHALL INDEMNIFY AND HOLD BANK HARMLESS AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, CLAIMS, COSTS, EXPENSES AND DISBURSEMENTS OR ANY KIND OR NATURE WHATSOEVER, WHICH MAY BE IMPOSED ON, INCURRED BY OR ASSERTED AGAINST BANK, IN ANY WAY RELATING TO OR ARISING OUT OF THIS AGREEMENT OR ANY INSTRUMENT EXECUTED PURSUANT HERETO, OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN, TO THE EXTENT THAT ANY SUCH INDEMNIFIED MATTERS RESULT,

DIRECTLY OR INDIRECTLY, FROM ANY CLAIMS MADE OR ACTIONS, SUITS OR PROCEEDINGS COMMENCED BY OR ON BEHALF OF ANY PERSON OR ENTITY OTHER THAN BANK; PROVIDED, THAT BANK

SHALL NOT HAVE THE RIGHT TO BE INDEMNIFIED HEREUNDER FOR ITS GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

K. NO ORAL AGREEMENTS. THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

L. ADDITIONAL PROVISIONS (WHICH SHALL CONTROL IN THE EVENT OF ANY CONFLICT WITH THE PRECEDING PROVISIONS):

EXECUTED as of the day and year first above written.

<TABLE>

<S>

<C>

BANK:
OVERTON BANK & TRUST,
NATIONAL ASSOCIATION

BORROWER:
INNOSERV TECHNOLOGIES, INC.

By: /s/ CURTIS F. VON DER AHE
Name Printed: CURTIS F. VON DER AHE
Title: PRESIDENT

By: /s/ MICHAEL G. PULS
Name Printed: MICHAEL PULS
Title: PRESIDENT

</TABLE>

Exhibit 10.19--Security Agreement

<TABLE>

<CAPTION>

<S>

INNOSERV TECHNOLOGIES, INC.
4330 BELTWAY, SUITE 300
ARLINGTON, TX 76018

<C>

OVERTON BANK AND TRUST, N.A.
SOUTH ARLINGTON
PO BOX 150049
ARLINGTON, TX 76015

TAXPAYER I.D. NUMBER:
DEBTOR'S NAME, ADDRESS AND SSN OR TIN
("I" MEANS EACH DEBTOR WHO SIGNS.)

SECURED PARTY'S NAME AND ADDRESS
("YOU" MEANS THE SECURED PARTY, ITS SUCCESSORS AND
ASSIGNS.)

</TABLE>

I am entering into this security agreement with you on APRIL 14, 1997 (date).

SECURED DEBTS. I agree that this security agreement will secure the payment and performance of the debts, liabilities or obligations described below that (Check one) [] I [XX] (name) INNOSERV TECHNOLOGIES, INC. owe(s) to you now or in the future:

(Check one below):

[] Specific Debt(s). The debt(s), liability or obligations evidenced by (describe): and all extensions, renewals, refinancing, modifications and replacement of the debt, liability or obligation.

[XX] All Debt(s). Except in those cases listed in the "LIMITATIONS" paragraph on page 2, each and every debt, liability and obligation of every type and description (whether such debt, liability or obligation now exists or is incurred in the future and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or joint, several or joint and several).

SECURITY INTEREST. To secure the payment and performance of the above described Secured Debts, liabilities and obligations, I give you a security interest in all of the property described below that I now own and that I may own in the future (including, but not limited to, all parts, accessories, repairs, improvements, and accessions to the property), wherever the property is or may be located, and all proceeds and products from the property.

--

XX INVENTORY: All inventory which I hold for ultimate sale or lease, or which has been or will be supplied under contracts of service, or which are raw materials, work in process, or materials used or consumed in my business.

XX EQUIPMENT: All equipment including, but not limited to, all machinery, vehicles, furniture, fixtures, manufacturing equipment, farm machinery and equipment, shop equipment, office and recordkeeping equipment, and parts and tools. All equipment described in a list or schedule which I give to you will also be included in the secured property, but such a list is not necessary for a valid security interest in my equipment.

___ FARM PRODUCTS: All farm products including, but not limited to:

- (a) all poultry and livestock and their young, along with their products, produce and replacements;
- (b) all crops, annual or perennial, and all products of the crops; and
- (c) all feed, seed, fertilizer, medicines, and other supplies used or produced in my farming operations.

XX ACCOUNTS, INSTRUMENTS, DOCUMENTS, CHATTEL PAPER AND OTHER RIGHTS TO PAYMENT: All right I have now and that I may have in the future to the payment of money including, but not limited to:

(a) payment for goods and other property sold or leased or for services rendered, whether or not I have earned such payment by performance; and

(b) rights to payment arising out of all present and future debt instruments, chattel paper and loans and obligations receivable.

The above include any right and interests (including all liens and security interests) which I may have by law or agreement against any account debtor or obligor of mine.

___ GENERAL INTANGIBLES: All general intangibles including, but not limited to, tax refunds, applications for patents, patents, copyrights, trademarks, trade secrets, good will, trade names, customer lists, permits and franchises, and the right to use my name.

___ GOVERNMENT PAYMENTS AND PROGRAMS: All payments, accounts, general intangibles, or other benefits (including, but not limited to, payments in kind, deficiency payments, letters of entitlement, warehouse receipts, storage payments, emergency assistance payments, diversion payments, and conservation reserve payments) in which I now have and in the future may have any rights or interest and which arise under or as a result of any preexisting, current or future Federal or state governmental program (including, but not limited to, all programs administered by the Commodity Credit Corporation and the ASCS.

___ THE SECURED PROPERTY INCLUDES, BUT IS NOT LIMITED BY, THE FOLLOWING:

If this agreement covers timber to be cut, minerals (including oil and gas), fixtures or crops growing or to be grown, the legal description is:

I am a(n) individual partnership corporation

If checked, file this agreement in the real estate

Record Owner (if not me):

The property will be used for personal business agricultural
-----reasons.

OVERTON BANK AND TRUST, N.A.

SOUTH ARLINGTON

(secured party's name)

By: /s/ CURTIS VON DER AHE

CURTIS VON DER AHE, PRESIDENT

I AGREE TO THE TERMS SET OUT ON BOTH PAGE 1 AND PAGE 2 OF THIS AGREEMENT. I HAVE RECEIVED A COPY OF THIS DOCUMENT ON TODAY'S DATE.

INNOSERV TECHNOLOGIES, INC.

(Debtor's Name)

By: /s/ MICHAEL PULS

Michael Puls

Title: PRESIDENT

GENERALLY--"You" means the Secured Party identified on page 1 of this agreement. "I", "me" and "my" means each person who signs this security agreement as Debtor

and who agrees to give the property described in this agreement as security for the Secured Debts. All terms and duties under this agreement are joint and individual. No modification of this security agreement is effective unless made in writing and signed by you and me. This security agreement remains in effect, even if the note is paid and I owe no other debt to you, until discharged in writing. Time is of the essence in this agreement.

APPLICABLE LAW--I agree that this security agreement will be governed by the law of the state in which you are located. If property described in this agreement is located in another state, this agreement may also, in some circumstances, be governed by the law of the state in which the property is located.

To the extent permitted by law, the terms of this agreement may vary applicable law. If any provision of applicable law may not be varied by agreement, any provision of this agreement that does not comply with the law will not be effective. If any provision of this agreement cannot be enforced according to its terms, this fact will not affect the enforceability of the remainder of this agreement.

OWNERSHIP AND DUTIES TOWARD PROPERTY--I represent that I own all of the property, or to the extent this is a purchase money security interest I will acquire ownership of the property with the proceeds of the loan. I will defend it against any other claim. Your claim to the property is ahead of the claims of any other creditor. I agree to do whatever you require to protect your security interest and to keep your claim in the property ahead of the claims of other creditors. I will not do anything to harm your position.

I will keep books, records and accounts about the property and my business in general. I will let you examine these records at any reasonable time. I will prepare any report or accounting you request, which deals with the property.

I will keep the property in my possession and will keep it in good repair and use it only for the purpose(s) described on page 1 of this agreement. I will not change this specified use without your express written permission. I represent that I am the original owner of the property and, if I am not, that I have provided you with a list of prior owners of the property.

I will keep the property at my address listed on page 1 of this agreement, unless we agree I may keep it at another location. If the property is to be used in another state, I will give you a list of those states. I will not try to sell the property unless it is inventory or I receive your written permission to do so. If I sell the property I will have the payment made payable to the order of you and me.

You may demand immediate payment of the debt(s) if the debtor is not a natural person and without your prior written consent (1) a beneficial interest in the debtor is sold or transferred or (2) there is a change in either the identity or number of members of a partnership or (3) there is a change in ownership of more than 25 percent of the voting stock of a corporation.

I will pay all taxes and charges on the property as they become due. You have the right of reasonable access in order to inspect the property. I will immediately inform you of any loss or damage to the property.

LIMITATIONS--This agreement will not secure a debt described in the section entitled "Secured Debts" on page 1:

- 1) if you fail to make any disclosure of the existence of this security interest required by law for such other debt;
- 2) if this security interest is in my principal dwelling and you fail to provide (to all persons entitled) any notice of right of rescission required by law for such other debt;
- 3) to the extent that this security interest is in "household goods" and the other debt to be secured is a "consumer" loan (as those terms are defined in applicable federal regulations governing unfair and deceptive credit practices);
- 4) if this security interest is in margin stock subject to the requirements

of 12 C.F.R. Section 207 or 221 and you do not obtain a statement of purpose if required under these regulations with respect to that debt; or

- 5) if this security interest is unenforceable by law with respect to that debt.

PURCHASE MONEY SECURITY INTEREST--For the sole purpose of determining the extent of a purchase money security interest arising under this security agreement: (a) payments on any non-purchase money loan also secured by this agreement will not be deemed to apply to the purchase money loan, and (b) payments on the purchase money loan will be deemed to apply first to the non-purchase money portion of the loan, if any, and then to the purchase money obligations in the order in which the items of collateral were acquired or if acquired at the same time, in the order selected by you. No security interest will be terminated by application of this formula. "Purchase money loan" means any loan the proceeds of which, in whole or in part, are used to acquire any collateral securing the loan and all extensions, renewals, consolidations and refinancings of such loans.

AUTHORITY OF SECURED PARTY TO MAKE ADVANCES AND PERFORM FOR DEBTOR--I agree to pay you on demand any sums you advanced on my behalf including, but not limited to, expenses incurred in collecting, insuring, conserving, or protecting the property or in any inventories, audits, inspections or other examinations by you in respect to the property. If I fail to pay such sums, you may do so for me, adding the amount paid to the other amounts secured by this agreement. All such sums will be due on demand and will bear interest at the highest rate provided in any agreement, note or other instrument evidencing the Secured Debt(s) and permitted by law at the time of the advance.

If I fail to perform any of my duties under this security agreement, or any mortgage, deed of trust, lien or other security interest, you may without notice to me perform the duties or cause them to be performed. I understand that this authorization includes, but is not limited to, permission to: (1) prepare, file, and sign my name to any necessary reports or accountings; (2) notify any account debtor of your interest in this property and tell the account debtor to make the payments to you or someone else you name, rather than me; (3) place on any chattel paper a note indicating your interest in the property; (4) in my name, demand, collect, receive and give a receipt for compromise, settle, and handle any suits or other proceedings involving the collateral; (5) take any action you feel is necessary in order to realize on the collateral, including performing any part of a contract or endorsing it in my name; and (6) make an entry on my books and records showing the existence of the security agreement. Your right to perform for me shall not create an obligation to perform and your failure to perform will not preclude you from exercising any of your rights under the law of this security agreement.

INSURANCE--I agree to buy insurance on the property against the risks and for the amounts you require and to furnish you continuing proof of coverage. I will have the insurance company name you as loss payee on any such policy. You may require added security if you agree that insurance proceeds may be used to repair or replace the property. I will buy insurance from a firm licensed to do business in the state where you are located. The insurance will last until the property is released from this agreement. If I fail to buy or maintain the insurance (or fail to name you as loss payee) you may purchase it yourself.

WARRANTIES AND REPRESENTATIONS--If this agreement includes accounts, I will not settle any account for less than its full value without your written permission. I will collect all accounts until you tell me otherwise. I will keep the proceeds from all the accounts and any goods which are returned to me or which I take back in trust for you, I will not mix them with any other property of mine. I will deliver them to you at your request. If you ask me to pay you the full price on any returned items or items retaken by myself, I will do so.

If this agreement covers inventory, I will not dispose of it except in my ordinary course of business at the fair market value for the property, or at a minimum price established between you and me.

If this agreement covers farm products I will provide you, at your request, a written list of the buyers, commission merchants or selling agents to or through whom I may sell my farm products. In addition to those parties named on

this written list, I authorize you to notify at your sole discretion any additional parties regarding your security interest in my farm products. I remain subject to all applicable penalties for selling my farm products in violation of my agreement with you and the Food Security Act. In this paragraph the terms farm products, buyers, commission merchants and selling agents have the meanings given to them in the Federal Food Security Act of 1985.

DEFAULT--I will be in default if any one or more of the following occur: (1) I fail to make a payment on time or in the amount due; (2) I fail to keep the property insured, if required; (3) I fail to pay, or keep any promise, on any debt or agreement I have with you; (4) any other creditor of mine attempts to collect any debt I owe him through court proceedings; (5) I die, am declared incompetent, make an assignment for the benefit of creditors, or become insolvent (either because my liabilities exceed my assets or I am unable to pay my debts as they become due); (6) I make any written statement or provide any financial information that is untrue or inaccurate at the time it was provided; (7) I do or fail to do something which causes you to believe that you will have difficulty collecting the amount I owe you; (8) I change my name or assume an additional name without first notifying you before making such a change; (9) failure to plant, cultivate and harvest crops in due season; (10) if any loan proceeds are used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 C.F.R. Part 1940, Subpart G, Exhibit M.

REMEDIES--If I am in default on this agreement, you have the following remedies:

- 1) You may demand immediate payment of all I owe you under any obligation secured by this agreement.
- 2) You may set off any obligation I have to you against any right I have to the payment of money from you.
- 3) You may demand more security or new parties obligated to pay any debt I owe you as a condition of giving up any other remedy.
- 4) You may make use of any remedy you have under state or federal law.
- 5) If I default by failing to pay taxes or other charges, you may pay them (but you are not required to do so). If you do, I will repay to you the amount you paid plus interest at the highest contract rate.
- 6) You may require me to gather the property and make it available to you in a reasonable fashion.
- 7) You may repossess the property and sell it as provided by law. You may repossess the property so long as the repossession does not involve a breach of the peace or an illegal entry onto my property. You may sell the property as provided by law. You may apply what you receive from the sale of the property to: your expenses; your reasonable attorney's fees and legal expenses (where not prohibited by law); any debt I owe you. If what you receive from the sale of the property does not satisfy the debts, you may take me to court to recover the difference (where permitted by law). I agree that 10 days written notice sent to my address listed on page 1 by first class mail will be reasonable notice to me under the Uniform Commercial Code. If any items not otherwise subject to this agreement are contained in the property when you take possession, you may hold these items for me at my risk and you will not be liable for taking possession of them.
- 8) In some cases, you may keep the property to satisfy the debt. You may enter upon and take possession of all or any part of my property, so long as you do not breach the peace or illegally enter onto the property, including lands, plants, buildings, machinery, and equipment as may be necessary to permit you to manufacture, produce, process, store or sell or complete the manufacture, production, processing, storing or sale of any of the property and to use and operate the property for the length of time you feel is necessary to protect your interest, all without payment or compensation to me.

By choosing any one or more of these remedies, you do not waive your right

to later use any other remedy. You do not waive a default if you choose not to use any remedy, and, by electing not to use any remedy, you do not waive your right to later consider the event a default and to immediately use any remedies if it continues or occurs again.

FILING--A carbon, photographic or other reproduction of this security agreement or the financing statement covering the property described in this agreement may be used as a financing statement where allowed by law. Where permitted by law, you may file a financing statement which does not contain my signature, covering the property secured by this agreement.

CO-MAKERS--If more than one of us has signed this agreement, we are all obligated equally under the agreement. You may sue any of one of us or any of us together if this agreement is violated. You do not have to tell me if any term of the agreement has not been carried out. You may release any co-signer and I will still be obligated under this agreement. You may release any of the security and I will still be obligated under this agreement. Waiver by you of any of your rights will not affect my duties under this agreement. Extending this agreement or new obligations under this agreement, will not affect my duty under the agreement.

INNOSERV TECHNOLOGIES, INC.
AMENDMENT TO BONUS AGREEMENT

This Amendment to Bonus Agreement (this "Agreement") is entered into between InnoServ Technologies, Inc. (the "Company") and Michael G. Puls, President and Chief Executive Officer of the Company (the "Executive").

WHEREAS, the Executive and the Company have previously entered into a Bonus Agreement, dated December 20, 1996, which was amended March 28, 1997 (as amended, the "Bonus Agreement"), in order to provide an incentive to the Executive to remain in the employ of the Company while the Company is investigating strategic alternatives in order to maximize shareholder value;

WHEREAS, the board of directors of the Company (the "Board of Directors") has determined that it is in the best interests of the Company and the shareholders of the Company to amend the Bonus Agreement as hereinafter provided in order to better achieve the purposes of the Bonus Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the Company and Executive agree as follows:

1. Unless otherwise defined herein, terms are used as defined in the Bonus Agreement.

2. Paragraph 1 of the Bonus Agreement is hereby amended to read in its entirety as follows:

"a. Subject to paragraph 2 below, if Executive is a full-time employee of the Company in good standing on the closing of a Sale of the Company (as defined in paragraph 3 below), then Executive will be entitled to a one-time bonus of \$300,000, PLUS an additional amount equal to (A) \$100,000, multiplied by (B) a fraction, the numerator of which shall equal the amount by which the Sale Price of the Company exceeds \$16 million and the denominator of which shall equal \$4 million, less all applicable withholdings (the "Bonus"). The Bonus will be payable in full, in cash on the closing date of such Sale of the Company.

b. The Sale Price of the Company, if a stock sale, shall be the product of (i) the average consideration paid for a share of common stock of the Company and (ii) the sum of (A) the number of such shares acquired by the other party to the transaction (or considered outstanding and for which payment is made by the acquiror), plus (B) the number of such shares issuable upon exercise of options, warrants or other rights or conversion or exchange of securities all as outstanding on the date of this Agreement and, without duplication, as thereafter issued or granted. For the purpose of clause (i) of the foregoing sentence, all shares shall be deemed to have been acquired if more than 50% of the Company's outstanding common stock is

acquired by a "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934.

c. For the purposes of calculating the Sale Price of the Company, equity securities constituting a part of the consideration referred to in clause (i) of paragraph 1.b. above that are traded on a national securities exchange or quoted on the National Association of Securities Dealers National Market System shall be valued at the last closing price thereof prior to the date of the consummation or closing of any such Sale of the Company.

d. The Sale Price of the Company, if an asset sale, shall be the sum of (i) the cash (or other consideration) paid by the purchaser for such assets and (ii) any debt assumed by the purchaser of such assets."

3. This Agreement supersedes any prior agreements or understandings with respect to the subject matter hereof. Except as amended hereby, the Bonus Agreement shall continue in full force and effect. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, successors, legal representatives and assigns.

4. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

5. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.

6. References in the Bonus Agreement to the "Agreement" shall mean the Bonus Agreement as amended hereby or previously amended.

IN WITNESS WHEREOF, the Company and Executive have executed this Agreement as of the day and year indicated below.

<TABLE>

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INNOSERV TECHNOLOGIES, INC.

By: /s/ MICHAEL SANDLER

Name: Michael Sandler
Its: Member of Board of Directors
Date: 4/2/98

EXECUTIVE:

By: /s/ MICHAEL G. PULS

Name: Michael G. Puls
Date: 4/2/98

</TABLE>

Exhibit 10.25--Compliance Waiver

FROST NATIONAL BANK
Member: Cullen/Frost Bankers. A Family of Texas Banks

July 2, 1998

Mr. Thomas Hoefert, CFO
InnoServ Technologies, Inc.
320 Westway Place
Arlington, Texas 76018-1099

Dear Tom:

You have requested waivers on compliance with sections 7.J.(a), 7.J.(b) and 7.J.(e) item 4, of the loan agreement dated April 14, 1997 and all subsequent amendments. These sections address the minimum net worth, current ratio, and cash flow coverage, respectively.

Frost Bank hereby waives compliance with sections 7.J.(a) and 7.J.(b) until September 30, 1998 and waives compliance with section 7.J.(e) item 4 for the duration of the loan.

If you need anything else, please call.

Sincerely,

/s/ Curtis F. Von Der Ahe
Curtis F. Von Der Ahe
President

Exhibit 21.1--Subsidiaries

As of April 30, 1998, the subsidiaries of InnoServ, Technologies, Inc. were:

InnoServ Technologies Maintenance Services, Inc.
Sietec, Inc.
Advanced Imaging Technologies, Inc.

Exhibit 23.1--Consent of Independent Auditors

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-2133 and No. 33-66752) pertaining to the Employee Stock Purchase Plan and 1992 Stock Incentive Plan of InnoServ Technologies, Inc. of our report dated June 17, 1998, with respect to the consolidated financial statements and schedule of InnoServ Technologies, Inc. included in the Annual Report (Form 10-K) for the year ended April 30, 1998.

/s/ Ernst & Young LLP

Fort Worth, Texas
July 17, 1998

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